EUROPEAN COMMISSION

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Subject: **State aid SA.33443 (2011/N) – second restructuring of Bank of Ireland - Ireland**

Sir,

1 PROCEDURE

(1) On 15 July 2010 the Commission approved a restructuring plan (hereinafter "the first restructuring plan") for Bank of Ireland (hereinafter "BOI") by means of a decision not to raise objections (hereinafter "the restructuring decision")[1].

(2) On 28 November 2010 the Irish government announced that a Programme for Support had been agreed with the European Commission and the International Monetary Fund (hereinafter "IMF") in liaison with the European Central Bank (hereinafter "ECB") (hereinafter the "Irish Programme for Support"). As part of the Irish Programme for Support an in-depth and comprehensive Prudential Capital Adequacy Review (hereinafter "PCAR") exercise and a Prudential Liquidity Assessment Review (hereinafter "PLAR") (together the "PCAR/PLAR exercise") were conducted to establish any further capital requirements for BOI and other Irish banks. The Irish Programme for Support also provided that the Irish banks would have to submit a restructuring plan by 31 July 2011.

(3) On 31 March 2011 the result of the PCAR/PLAR exercise was announced, which showed that BOI needed an additional capital injection of EUR 5.2 billion, of which EUR 4.2 billion should be Core Tier 1 capital and EUR 1 billion in the form of contingent capital.

(4) On 11 July 2011, the Commission approved the participation by the State in the capital

[1] Commission Decision in Case N546/2009, *Restructuring of Bank of Ireland*, OJ C 40, 9.2.2011, p. 9.

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raise initiated by BOI subject to the submission of a restructuring plan by the Irish authorities by 31 July 2011 (hereinafter "the 2011 recapitalisation decision")[2].

(5) On 29 July 2011, the Irish authorities notified a revised restructuring plan for BOI (hereinafter "the second restructuring plan").

(6) The Commission requested further information regarding the second restructuring plan on 2 September, 4 October 2011 and 17 and 18 November 2011. The Irish authorities provided the requested information on 21 September, 5 October and 5 December 2011.

(7) On 7 December 2011, the Irish authorities submitted that under certain stress circumstances BOI might […][*]. Thus a State guarantee to cover ELA requirements should be made possible, for a period until […] and for a maximum amount of EUR [around 5] billion.

2 DESCRIPTION OF THE MEASURE

2.1 The beneficiary

(8) BOI is the oldest Irish bank, having been established in 1783. It is currently one of the two largest financial services groups in Ireland, together with Allied Irish Banks (AIB).

(9) The bank's principal business activities are divided between the residential mortgage sector (around 51% of the bank's activities), lending to the property and construction sector (approximately 20%), corporate lending and lending to small- and medium-sized enterprises (around 26%), and consumer lending, including credit cards, personal loans and motor loans (approximately 3%).

(10) According to its Annual Report for the year ended 31 December 2010, BOI had total funding of approximately EUR [150-200] billion including customer deposits of EUR 65 billion and wholesale funding of EUR 70 billion. BOI's loan book was approximately EUR 114 billion. The loan-to-deposit ratio (hereinafter "LDR") was 175%. BOI's risk weighted assets (hereinafter "RWA") amounted to EUR 79 billion (as at 31 December 2010). At that time the bank's total capital ratio stood at 11%, while the Core Tier 1 capital ratio at 9.7%. BOI recorded a EUR 950 million loss before tax in 2010.

(11) The unaudited interim report for the first six months of 2011 ended on 30 June 2011 shows that BOI's customer deposits remained at around EUR 65 billion, while its loan book decreased to approximately EUR 107 billion. BOI's LDR decreased to [above 150]%, while its RWA stood at around EUR [around 80] billion. As at 30 June 2011, BOI's total capital ratio remained at 11% and its Core Tier 1 ratio stood at 9.5%. BOI

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[2] Commission Decision in case SA.33216 (2011/N), *Second rescue recapitalisation for Bank of Ireland*, OJ C 274, 17.9.2011, p. 2.

[*] Confidential information.

recorded a loss before tax of EUR 556 million in that period.

(12) A detailed description of the bank and its difficulties can be found in Section 2.1 and 2.2 of the restructuring decision.

2.2 Developments since the adoption of the restructuring decision

The implementation of the restructuring decision

(13) Following the adoption of the restructuring decision, BOI started the implementation of the conditions set out in Annex I to that decision. BOI's progress was monitored by a monitoring trustee appointed by the Commission.

(14) BOI has reduced its balance sheet from EUR [160-190] billion as at 31 December 2009 to EUR 155 billion as at 30 June 2011. BOI furthermore transferred around EUR 10.2 billion of loans to the National Assets Management Agency (hereinafter "NAMA").

(15) BOI also continued with the run-off of the UK Intermediary Mortgage and [...] Corporate Loan Portfolios, which reduced by around GBP [2-3] billion and around GBP [around 1.5] billion respectively compared to their balance as at 31 December 2009. BOI also incorporated a UK subsidiary centred on its relationship with the UK Post Office (see Section 2.4.1 of the restructuring decision).

(16) As regards the businesses BOI committed to divest (see Section 2.4.1 of the restructuring decision), it signed sale agreements for Bank of Ireland Asset Management on 22 October 2010, Paul Capital on 4 March 2011 and FCE on 6 May 2011. Those divestments all occurred within the deadlines laid down in Annex I to the restructuring decision. BOI furthermore started the separation and preparation for the sale of its New Ireland Life Assurance business and ICS.

(17) BOI also continued to run-down the UK intermediary mortgage portfolio and the [...] Corporate Loan portfolio, while also respecting the behavioural commitments set out in clauses 7 to 10 of Annex I to the restructuring decision, which include a ban on acquisitions and a dividend ban.

(18) BOI furthermore managed to improve its capital base through the 2010 capital raise and liability management exercises, resulting in a Core Tier 1 ratio above 8% since the restructuring decision was taken. BOI, due to the unrest on the financial markets, did not manage however to improve its funding position, collecting fewer deposits than forecast (and even suffering deposit outflows at certain periods) and availing itself of funding from the ECB and Ireland's Central Bank. As a result, BOI's LDR at 31 March 2011 was [above 150]% compared to the [below 150]% assumed in the first restructuring plan.

The developments surrounding the Irish Programme for Support

(19) After the adoption of the restructuring decision, the situation on the financial markets deteriorated as a result of the debt crisis. The Irish sovereign came under pressure, partly due to the uncertainty related to the costs of the rescue of the Irish banking sector. That

uncertainty led to an outflow of both retail and wholesale funding in the sector (also related to a downgrade of the Irish banks following downgrades of the Irish sovereign) and thus funding difficulties for BOI and the other Irish banks. BOI and other Irish banks increased their reliance on ECB funding and received State-guaranteed Emergency Liquidity Assistance (hereinafter "ELA") by the Central Bank.

(20) The erosion of confidence in the Irish sovereign resulted in Ireland requesting the IMF and the EU for support and the subsequent agreement, on 28 November 2010, of the Irish Programme for Support.

(21) The Irish Programme for Support stipulated that a PCAR and PLAR exercise would be conducted by the Central Bank for the Irish banking sector in order to determine the capital needs for the Irish banks in a base and a stress case, taking into account the costs associated with the deleveraging that the Irish banks needed to undertake to reach a LDR of 122.5%. It was furthermore agreed within the Irish Programme for Support that the Irish banks would observe a Core Tier 1 of 10.5% in a base case and 6% in a stress case.

(22) The results of the PCAR/PLAR procedures showed a further capital need of BOI of EUR 5.2 billion (of which EUR 1 billion of contingent capital). As part of the Irish Programme for Support, the State committed to provide the capital necessary to BOI in case it could not raise it by itself. Within the context of the Irish Programme for Support, it was furthermore agreed that all the Irish banks, including BOI, would submit revised restructuring plans that included the aid received as a result of the PCAR/PLAR procedures.

2.3 The aid measures received by BOI

(23) In the restructuring decision, the Commission approved the rescue measures received by BOI prior to that decision as restructuring aid (measures (a) to (e) in Table 1 below). Those measures included: the EUR 3.5 billion recapitalisation of BOI (measure (a)); the guarantee on its liabilities through the Credit Institution Financial Stability scheme (hereinafter "the CIFS scheme", measure (b)); the guarantee on its liabilities through the Eligible Liabilities Guarantee Scheme (hereinafter "the ELG scheme", measure (c)); the transfer of commercial land and property development loans to NAMA at a discount (measure (d)); and the participation of the State in BOI's 2010 capital raise (measure (e)). More details on those aid measures are recorded in Section 2.3 of the restructuring decision.

(24) After the adoption of the restructuring decision, BOI has received further aid measures (measures (f) to (i) in Table 1 below). BOI has, contrary to what was assumed in the restructuring decision[3], continued to benefit from further guarantees on its liabilities under the ELG scheme beyond 31 December 2010 (measure (f)). As at 31 August 2011, around EUR [around 40] billion of BOI's liabilities were guaranteed by the ELG scheme. BOI

[3] According to the restructuring decision, BOI would be covered by the ELG until 31 December 2010 and would disengage from it afterwards (recital 101 of restructuring decision).

pays a fee for the guarantee in line with the ELG scheme as approved by the Commission[4] of currently […] basis points (hereinafter "bps") for liabilities with a maturity of less than one year and […] bps for term funding (in excess of one year).

(25) The State participated in the capital raise of BOI following the announcement of BOI's capital requirement of EUR 5.2 billion as a result of the PCAR/PLAR process (hereinafter the "2011 capital raise")[5]. The State participation (measure (g)) consisted of a direct placing of ordinary shares to the State (only in case proceeds of the liability management exercises were not sufficient), underwriting by the State of a rights issue for an amount of around EUR 1.9 billion[6] and the provision by the State of contingent capital of EUR 1 billion. BOI paid an underwriting fee of 4% on the gross proceeds of the rights issue, a corporate finance fee of EUR 3 million and a fee covering the State expenses related to its participation in the 2011 capital raise of EUR 4 million. BOI furthermore paid a fee of EUR 15 million for the contingent capital instrument and will pay an annual coupon of 10%. The State participation in the capital raise was approved on 11 July 2011 as rescue aid[7].

(26) After deduction of the capital raised by BOI through liability management exercises (around EUR [2.3-2.5] billion) and private participation in the rights issue (around EUR 1.7 billion), the State participation in the 2011 capital raise amounted to approximately EUR 200 million in the form of ordinary shares. The State's shareholding in BOI following the 2011 capital raise decreased from 36% to 15%. The State also provided EUR 1 billion in contingent capital as planned.

(27) To cover the period between the announcement of BOI's capital requirements and the contribution to the capital by both the State and private investors and in order to demonstrate the State's commitment to recapitalise the banks, BOI received deposits from the National Treasury Management Agency (hereinafter "NTMA") for a total amount of EUR 3 billion (two tranches of EUR 1.6 billion and EUR 1.4 billion respectively, measure (h)). BOI paid a fee of 40 to 50 bps over the […]. Following the completion of BOI's 2011 capital raise, the deposits were withdrawn by the NTMA on 28 and 29 July 2011. If BOI had needed capital following the July 2011 capital raise (measure (g)), it was foreseen that the deposits would have been converted into equity.

(28) Finally, BOI received a State guarantee on ELA it received from the Central Bank from 17

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[4] For the latest Commission approval of a prolongation of the ELG scheme until 30 June 2012, see Commission Decision in Case SA.33740, *Prolongation of the ELG Scheme until 30 June 2012*, adopted on 8 December 2012, not yet published.

[5] See Section 2.5 of the 2011 recapitalisation decision.

[6] According to the decision approving the State's participation in the 2011 capital raise, the State would underwrite the rights issue for an amount up to EUR 4.35 billion, being the EUR 4.2 billion Core Tier 1 capital required and expenses. Following successful liability management exercises, that amount was reduced to around EUR 1.9 billion.

[7] See footnote 2.

November 2010 (measure (i)). The limit to the guaranteed ELA at its peak amounted to EUR [around 15] billion from 19 July 2011 until 23 August 2011. In December 2011, it amounted to EUR [around 10] billion, and was set to expire on 23 January 2012. As regards effective usage, BOI used the guarantee five times for terms between 1 day and 1 week for a maximum of EUR [around 5] billion and an average balance of EUR [around 3] billion. It was last used on 16-23 February 2011 for EUR [around 2] billion. BOI paid […] bps over the ECB base rate for the ELA. BOI will also be entitled to benefit from a State guarantee to cover ELA requirements for a period until […] and for a maximum amount of EUR [around 5] billion, in order to cover for stress situation (guarantees to be issued before […], with maturity not extending beyond […]).

Table 1: Overview of aid measures BOI (2009-2012)

	Type of measure	Amount (€, bn)	Remuneration
	Measures part of restructuring decision		
(a)	Recapitalisation in the form of preference shares	3.5	8% on total amount, 10.25% on EUR 1.83 billion following conversion of EUR 1.67 billion on ordinary shares June 2010
(b)	Guarantees under the CIFS scheme	up to [around 30]	Flat fee of [...] bps from September 2008 and September 2009; [...] bps from September 2009 until expiry
(c)	Guarantees under the ELG scheme	up to [around 50]	50-[...] bps depending on type of liability, maturity and applicable conditions of the approval
(d)	Asset relief measure – transfers to NAMA	10.2	n/a – transferred at average discount of 44%
(e)	State participation in 2010 capital raise	0*	fee of EUR 130 million
	Further aid after restructuring decision		
(f)	Continued use of ELG scheme	[around 40]**	Variable depending on type of liability and maturity
(g)	State participation in 2011 capital raise (underwriting, rights issue and contingent capital)	1.2***	4% on gross proceeds rights issue + EUR7 million, EUR 15 million + 10% coupon
(h)	Deposit by NTMA May-July 2011	3	between […]and […]depending on tranches
(i)	State guarantee on ELA until […]	[...]	ELA remuneration: ECB rate + […]

* The State participation consisted of a conversion of EUR 1.67 billion of the EUR 3.5 billion preference shares into normal equity. The change of nature of the instrument made it more […], but did however not result in further aid. This change was considered at the time because the new capital requirement of Irish banks had been set at 10.5% Core Tier 1, and there was no guarantee that preference shares would be treated as Core Tier 1 while equity was. Thanks to this conversion, BOI was deemed to reach its new capital requirement.
** Figures as at 31 August 2011
*** The underwriting element of the capital raise amounted to EUR 1.9 billion.

2.4 The second restructuring plan

2.4.1 Basis of the second restructuring plan

(29) The Irish authorities submitted a revised restructuring plan for BOI covering the period 2011-2015. That restructuring plan essentially contained an update of the restructuring plan submitted by the Irish authorities for BOI on 30 September 2009.

(30) BOI's second restructuring plan is based on a zero balance sheet growth scenario for the period between 2011 and the end of 2013, net of deleveraging of non-core assets. That scenario, for both a base and a stress case, is in line with the agreement between the Central Bank, the Commission, the IMF and the ECB in the context of the preparations for the 2011 PCAR/PLAR procedures. The base and stress scenario hypotheses were based on the information and forecasts available in the second quarter of 2011. Since then the economic situation in Europe generally, including in Ireland and the United Kingdom, has worsened and a mid-case, situated between the base and the stress cases, has materialised.

(31) The scenario assumes that BOI's balance sheet, including its deposits, does not grow between 2011 and 2013. That scenario also determined the deleveraging that BOI needs to undertake in order to reach a LDR of 122.5% by the end of the Irish Programme for Support by 31 December 2013.

(32) BOI's management furthermore prepared a BOI strategic plan for the period 2011-2015. As the PCAR/PLAR zero balance sheet growth scenario does not cover the period 2014-2015, BOI has used the assumptions in the strategic plan for the years 2014 and 2015 in the second restructuring plan (both in a base and stress case) to arrive at a plan that covers the entire restructuring period.

2.4.2 Macro-economic assumptions

2.4.2.1 Base case

(33) In the base case, it is assumed that GDP in Ireland, after a sharp decline in the previous years, will start to grow by 0.9% in 2011[8]. That growth is excepted to accelerate in 2012 to 1.9% and is assumed to remain steady between 2013 and 2015 when GDP is expected to grow by 2.5%, 2.7% and 3% respectively. Unemployment in the base case will peak in 2011 at 14.4% and will thereafter decrease to 11% in 2015. House prices are expected to decline in 2011 and 2012 by 13.4% and 14.4% respectively, before increasing slowly in 2013-2015.

(34) The projections for the UK show that GDP is expected to grow steadily by around 2.5%

[8] On 6 December 2011, Eurostat forecasts for Ireland were more conservative, with the GDP growth forecast being 1.1%, 1.1% and 2.3% respectively for the years 2011, 2012 and 2013 (between the base and the stress scenarios of the second restructuring plan).

per annum between 2011 and 2015[9]. Unemployment in the UK in the base case is expected to peak in 2011 at 7.9%, steadily decreasing afterwards to 6.0% in 2015. House prices in the UK are expected to decline by 7.3% in 2011, but are assumed to recover from 2012 onwards.

(35) BOI's operating income in the base case is projected to decrease from around EUR 2.8 billion as at 31 December 2010 to EUR [...] billion by the end of 2011[...] BOI has posted a loss before tax of around EUR 3.5 billion for 2010. BOI is expected to break-even in [...] and return to profitability in [...]. Net profits will however not return to [...] levels at the end of the restructuring period, mainly due to higher impairment charges throughout the restructuring period which, however, will decrease from around EUR [...] billion over the 2011 financial year to around EUR [...] million over 2015.

(36) BOI expects to meet its capital ratios in the base case throughout the projection period (2010-2015), with a Core Tier 1 ratio of [...]% by the end of 2011[...]. BOI's Equity Tier 1 ratio will rise from [...]% by the end of 2011 to [...]% in 2015. The high capital ratios reflect the recapitalisation of BOI in line with the 2011 PCAR/PLAR procedures which take into account the losses associated with the deleveraging BOI has to undertake and the impairments expected on BOI's loan portfolios. According to the final restructuring plan, BOI expects to start repaying the State by [...], by buying back the outstanding preference shares.

2.4.2.2 Stress case

(37) The Irish authorities have also submitted a stress scenario. In the stress case, GDP in Ireland will continue to contract in 2011 by 1.6%, before growing at a slow pace from 0.3% in 2012 to around 1.5% per annum between 2013 and 2015. Unemployment in the stress case is expected to peak in 2012 at 15.8% after which it will decrease to 14.5% in 2015. House prices in Ireland in a stress case are expected to drop substantially in 2011 and 2012 by 17.4% and 18.8% respectively. In the period [...]-2015 house prices are expected to remain stable (i.e. 0% growth).

(38) In the stress case, UK GDP will contract by 0.6% in 2011, thereafter growing from 2012 to 2015 at a steady pace (cumulatively by 7.4% over this period). Unemployment in that scenario is expected to peak in 2012 at 10.5%, reducing thereafter to 7.4% in 2015. House prices in the UK are forecast to fall by 7.7% in 2011 and 10.4% in 2012, but will start to grow in 2014 and 2015 by 3.5% and 3.3% respectively.

(39) BOI's operating income in the stress case would significantly decrease, and the return to profitability would be delayed by [...]. Return on equity would be subdued, at [...]% in 2014 and [...]% in 2015. Profit growth would be slow [...].

(40) In the stress scenario, BOI expects to be able to meet its internal capital targets throughout

[9] On 6 December 2011, Eurostat forecasts for the United Kingdom were more conservative, with GDP growth forecast being 0,7%, 0.6% and 1.5% respectively for the years 2011, 2012 and 2013 (between the base and the stress scenarios of the second restructuring plan).

the projection period. Its Core Tier 1 ratio would be [...]% in 2011 to decrease to [...]% in [...] and slowly rise again towards [...]% by the end of the period. BOI's Equity Tier 1 ratio would also rise moderately from [...]% in 2012 to [...]% in 2015. In the stress case, the repayment of the State's outstanding preference shares would not occur before [...].

2.4.3 Description of the restructuring of BOI

(41) According to the second restructuring plan, BOI aims to focus on the Irish and UK retail, business and corporate banking markets. The restructuring of BOI will ensure its return by the end of 2015 to being a solid, well-funded bank with sound capital ratios which can maintain its role as a supplier of credit to the real economy. That goal is achieved through:

(i) deleveraging of the balance sheet by winding-down non-core loan books and exiting non-core businesses;

(ii) improvement of the funding strategy, i.e. reducing dependence on wholesale funding;

(iii) maintaining a strong capital position;

(iv) improvement of risk management.

(i) Deleveraging of BOI's balance sheet

Deleveraging following the 2011 PLAR

(42) The Irish authorities, in the context of the Irish Programme for Support, carried out a liquidity adequacy review of the Irish banks (PLAR) alongside the 2011 PCAR. The aim of the former exercise was to establish the amount of deleveraging that was necessary for covered banks to reach a LDR of 122.5% at 31 December 2013. To that end, the banks were requested to split the asset side of their balance sheets into a core and non-core part, of which the non-core part will be deleveraged partly via disposals and partly via run-off. Regarding disposals, discounts to book value were established for each loan portfolio, representing the maximum discounts at which the banks would be required to dispose of those loan assets. The losses associated with selling the assets were taken into account when determining the capital requirements for each bank as part of the 2011 PCAR.

(43) BOI, as it was part of the 2011 PCAR/PLAR exercise, also provided a split of the asset side of its balance sheet into a core and a non-core part. As illustrated by Table 2, the split of BOI's EUR 115.25 billion net loans to customers as at 31 December 2010 results in a core part focussing on retail, corporate and business banking in Ireland and the UK of around EUR 76.2 billion. The non-core part contains part of BOI's investment […] activities in the UK, intermediary mortgage activity in the UK, its US real estate business, the loans eligible for transfer to NAMA that have not yet been transferred because of legal proceedings and BOI's commercial property and investment loans with a value of less than EUR 20 million (so-called "NAMA 2 loans").

(44) BOI intends to deleverage the non-core portfolios in order to reach a LDR of 122.5% by the end of 2013. Annex I provides the commitments of Ireland and BOI with regard to the

deleveraging. In case BOI has met the LDR target and any balance is left in the non-core part of the balance sheet after 2013, BOI will continue to run off the portfolios thereafter. The deleveraging can take place in various ways, including redemptions, repayments by customers, the refinancing of the loans with other lenders, the sale of loan assets and the transfer of loan assets into the UK subsidiary. BOI will sell around EUR 10 billion of loan assets by 2013, but is not required to sell them below the discounts agreed in the PLAR and listed in Appendix 1 to Annex I.

(45) BOI will continue to do new lending for the core businesses mentioned in Table 2 for an amount of around EUR [...] billion between 2011 and 2013 and around EUR [...] billion per annum for the years 2014 and 2015. As the redemptions of loans over the period exceed new lending, the total loan book will decrease from EUR […] billion as at 31 December 2011 to around EUR [...] billion. It will result in additional deleveraging of the loan book. At the end of the restructuring period, the risk RWA of BOI will have reduced from EUR 79 billion as at 31 December 2010 to around EUR [below 70] billion for the financial year of 2015.

(46) As regards BOI's lending margins for new lending, the second restructuring plan assumes that the lending margins will progressively increase from [...]% as at 31 December 2010 to [...]% in the first half of [...].

Table 2: Core and non-core split of BOI net loan to customers (EUR billion) (total: EUR 115.25 billion)

EUR/mn	31-dec-10		31-dec-10
Core		**Non-core**	
ROI non-tracker mortgages	[...]	US real estate	[...]
ROI tracker mortgages	[...]	UK intermediary mortgages (non-plc)	[...]
ICS building society	[...]	UK investment property	[...]
ROI business banking	[...]	[...]	[...]
ROI consumer	[...]	UK Corporate banking	[...]
Corporate banking	[...]	[...]	[...]
[...]	[...]	[...]	[...]
[...]	[...]	[...]	[...]
[...]	[...]	Project finance business	[...]
[...]	[...]	Burdale (asset finance)	[...]
[...]	[...]	NAMA 1 residual and NAMA 2	[...]
[...]	[...]		
[...]	[...]		
[...]			
Total core	**76,193**	**Total non-core**	**39,058**

Deleveraging required by the restructuring decision

(47) BOI, in the context of the restructuring decision, was to deleverage its balance sheet through the divestment of several of its business and the run-off of two loan portfolios. As described in recitals (13) to (18), BOI has meanwhile divested three businesses and has continued with the respective run offs. Of the divestments identified in the restructuring

decision, BOI still has to carry out the divestment of its Life Assurance business (New Ireland).

(48) Developments since the first restructuring decision have led to the cancellation of two divestments BOI still had to carry out as part of the restructuring decision. First, BOI will no longer divest its building society ICS as the latter can positively contribute to the retail funding position of BOI through its deposit base. Furthermore, BOI will also no longer divest its stake in the Irish Credit Bureau (hereinafter "the ICB") as the Irish Programme for Support includes an obligation for the Irish authorities to create a new Credit Register, which will replace the Irish Credit Bureau. […]

(ii) Improving the funding

(49) Compared to the first restructuring plan, the assumptions in the second restructuring plan regarding funding have been revised downwards. As regards customer deposits, the second restructuring plan assumes zero deposit growth between 2011 and 2013 for Ireland. As a result Irish customer deposits will remain at around EUR [30-45] billion. In 2014 and 2015 the Irish customer deposits are expected [...], leading to customer deposits of around EUR [30-45] billion in 2014 and around EUR [30-45] billion in 2015. The UK deposits are assumed to increase [...]% per year between 2011 and 2015 period from around EUR [20-30] billion in 2011 to around EUR [20-30] billion in 2015. The margins for retail deposits are expected to […] over most of the restructuring period and […] After that date, margins will […] The same development is assumed for the average margin of all deposit products, which was [...]

(50) As for BOI's LDR, the second restructuring plan projects it will reduce from 176% as at 31 December 2010 to 122.3% at the end of 2013 and […]% by the end of 2015.

(51) Concerning wholesale funding, the plan foresees that BOI will progressively reduce its reliance on wholesale funding from around EUR 69.8 billion as at 31 December 2010 (representing [above 40]% of total funding) to around EUR [...] billion by the end of 2015 (representing [below 30]% of total funding). BOI will in particular reduce its reliance on funding from both the Central Bank and the ECB. According to the second restructuring plan, BOI expects to reduce its borrowing from the ECB from EUR [above 20] billion as at 31 December 2010 to around EUR [below 10] billion by the end of 2013 and to [below 5] by the end of 2015. BOI exited the ELA (around EUR 8.5 billion as at 31 December 2010) in December 2011.

(52) BOI does not expect to need ELA in the future. However, the Irish authorities submitted that […] a State guarantee to cover ELA requirement will be made possible, for a period […] and for a maximum amount of EUR [around 5] billion.

(53) BOI furthermore plans to issue new [...] term funding between [...] and [...] for a total amount of around EUR [...] billion at [...] bps over EURIBOR. In [...] and [...], BOI expects to issue a total of EUR [...] billion of [...] term funding and around EUR [...] billion of [...] funding at [...] bps. The second restructuring plan assumes that for the period [...] to [...], the ELG scheme will remain in place (subject to approval by the Commission).

(iii) Improving profitability

(54) BOI projects to return to profitability in [...] and to achieve 'normalised' profits before tax of approximately EUR [...] billion in [...] and EUR [...] billion in [...], compared to a [...] result of EUR [...] billion in [...]. Return on equity is forecast to achieve [...]% in [...] and [...]% in [...], compared to [...]% in [...].

(55) The main drivers for the profitability improvement will be firstly higher margins [...]

(56) Secondly, the cessation of the ELG scheme in […] will bring an improvement in the charges paid to the State, which amounted to a cost of EUR [...] billion in 2011. Third, the bank foresees lower operating costs, decreasing from EUR [...] billion in 2011 to EUR [...] billion in 2015, [...] as a consequence of the bank's restructuring. Finally, BOI foresees a reduction in impairments charges, from EUR [...] billion in 2011 to EUR [...] billion in 2014 and 2015, as market conditions normalise. The reduction in impairment charges is expected to […] across all portfolios, and particularly pronounced for land and development loans (post NAMA) [...].

(iv) Maintaining a strong capital position

(57) In order to meet its regulatory capital requirements, BOI carried out a capital raising exercise in 2010 and raised EUR 3.56 billion of capital. By the end of that exercise, the State had a shareholding in BOI of around 36%. Following the new capital requirement of EUR 5.2 billion (of which EUR 1 billion contingent capital) resulting from the 2011 PCAR/PLAR procedures, BOI carried out another capital raise. The capital raising exercise consisted of the following steps: (i) a liability management exercise on around EUR 2.6 billion of subordinated debt with yielded around EUR 2 billion in capital, (ii) another liability management exercise took place in December 2011which released around EUR 350 million of capital, (iii) a rights issue for approximately EUR 1.9 billion fully underwritten by the State and (iv) the issuance of a contingent capital instrument to the State for an amount of EUR 1 billion. The 2011 capital raise was approved by the Commission on 11 July 2011.

(58) The 2011 capital raise was completed on 27 July 2011 and showed that the total take-up by private investors in the rights issue amounted to around EUR 1.7 billion. Consequently, the State in total contributed around EUR 1.2 billion to the capital raise (EUR 200 million in the rights issue + EUR 1 billion of contingent capital). As a result of the 2011 capital raising exercise, the stake of the State in BOI will reduce from around 36% to 15%.

(59) Apart from the liability management exercises carried out by BOI in the context of the 2011 capital raise, BOI, since the restructuring decision, has carried out four further liability management exercises: (i) an exchange of EUR 24 million Lower Tier 2 securities for another Lower Tier 2 instrument, with a capital gain of approximately EUR 12 million in July 2010, (ii) an exchange of Canadian dollar-denominated subordinated debt with a value of around EUR [...] million with a capital gain of approximately EUR 24 million, (iii) an exchange of EUR 1.355 billion of Lower Tier 2 securities with a capital gain of approximately 680 million and (iv) an exchange of around EUR 102 million of Canadian dollar-denominated Lower Tier 2 securities with a capital gain of around EUR 46 million.

The total capital gain as a result of the liability management exercises was around EUR 762 million. It was used to increase BOI's Core Tier 1 capital.

(60) In addition to the capital raising exercise and the liability management exercises, BOI expects to improve its capital position through the reduction of RWA associated with the deleveraging of around EUR 39 billion as set out in Table 2. Furthermore, BOI will increase profits through its efficiency and cost management programme, and it will use those profits to increase its retained earnings.

(v) Improving BOI's risk management

(61) BOI will continue its efforts as set out in recitals 86 and 87 of the restructuring decision. As a result, […] changes to the corporate governance structure of BOI including the establishment of a Group Risk Framework which clarifies the risk appetite of BOI, a Board Risk Committee and a split of the functions of the Chief Risk Officer into a Chief Credit Risk, a Chief Market Risk and a Chief Governance Risk. As regards remuneration of the management, BOI has adopted a more restrictive policy on bonuses in order to avoid excessive risk-taking.

(62) With regard to credit risk, BOI will continue to improve the management of its loan portfolios mainly by refocusing and increasing its review of and its reporting on its loan exposures, adapting the lending criteria for certain sectors and enhancing the collections and recoveries process.

3. POSITION OF THE IRISH AUTHORITIES

(63) The Irish authorities accept that the some elements of the measures constitute State aid. They submit that the measures are compatible with the internal market on the basis of Article 107(3)(b) TFEU as they are necessary to remedy a serious disturbance in the Irish economy. In particular the Irish authorities submit that the measures are (i) appropriate and well-targeted; (ii) necessary and limited to the minimum amount necessary; and (iii) proportionate as designed to minimize negative spill-over effects on competitors.

3.1 Appropriate and well-targeted

(64) The Irish authorities submit that BOI is systemically important for the maintenance of stability of the financial system in Ireland. BOI has been identified as one of the two full-service pillar banks which will constitute the new Irish banking landscape in the short-to medium-term. BOI is one of the largest financial institutions in the State.

(65) The Irish authorities also stress that the purpose of the recapitalisation measures is to ensure compliance by BOI with the new capital requirements announced by the Central Bank as part of the Government's proposed reorganisation of the Irish financial system. The reorganisation of the banking system provides for a recapitalisation, fundamental downsizing, restructuring and reorganisation of the banking sector. The primary objective is to rebuild international market confidence in the Irish banking system to enable the Irish banks to revert to normal market funding in due course and reduce progressively their

reliance on funding from the Eurosystem and guarantees and other financial support from Exchequer. As such, the Irish authorities view the recapitalisation measures and the other measures as appropriate and well-targeted to their objectives, which are: 1) to preserve the financial stability of BOI; 2) to safeguard the Irish financial system against a threat to its stability; and 3) to remedy a serious disturbance to Irish economy.

3.2 Necessary and limited to the minimum amount.

(66) The Irish authorities submit that the recapitalisation measures are limited in size to what is necessary to ensure the compliance by BOI with the new target capital ratios. In addition, that BOI has raised a significant amount of the required capital through capital raising exercises including liability management exercises and assets disposals.

(67) A group of institutional investors and fund managers acquired c.10.5 billion units of ordinary stock in the Bank from the State for approximately EUR 1.05 billion which gave them a stockholding of around 35%.

(68) Following further burden-sharing by bondholders in the summer, the amount of the rights issue to be underwritten by the State was reduced to EUR 1.9 billion. The State decided to take up its existing entitlement under the rights issue on the same basis as third party private investors.

(69) The net cash commitment by the State to the capital raising exercise was c. EUR 200 million (after fees), plus EUR 1 billion of contingent capital.

(70) Following the capital raising programme, existing shareholders, former bondholders (who accepted the equity exchange in the June 2011 Liability Management exercise) and new investors own 85% of the bank, with the State maintaining a minimum 15% stockholding in the bank.

(71) The remaining 2011 PCAR requirement of EUR 0.35 billion was raised in December 2011, through a combination of Residential Mortgage-Backed Securitization (RMBS) liability management exercises and additional burden-sharing with subordinated bondholders.

(72) The Irish authorities recall that the State received an underwriting fee of 4% of the gross proceeds of the Rights Issue (considered to be an upper end of the market for such transactions), and a EUR 15 million fee for the Contingent Capital Instrument. BOI also paid any debts and expenses associated with the Debt for Equity Offers, the Rights Issue, the Extraordinary General Court of BOI, the entry into the Transaction Agreement, the issue of the new ordinary shares and the issue of the Contingent Capital Instrument.

(73) The Irish authorities underline that capital generated by BOI under the liability management exercise measures has reduced significantly the level of capital invested by the State under the recapitalisation measures. The liability management exercise measures have ensured that BOI and its capital holders made a significant contribution to the recapitalisation of the bank and ensure that the State aid is limited to minimum necessary.

(74) The Irish authorities recall that between May 2009 and December 2011 BOI executed a range of liability management exercises on more than EUR 8 billion of subordinated bonds, generating almost EUR 5 billion of Core Tier 1 capital. Those transactions were designed so as to maximise the benefits for BOI's capital and lead to significant burden-sharing by subordinated bondholders. […] Following that December 2011 liability management exercise, the remaining subordinated debt in BOI is very limited, with outstanding subordinated debt/non-State preference shares at approximately EUR 450 million of which approximately EUR 90 million have discretionary coupons. The annual coupon on the discretionary securities is approximately EUR 9 million at current rates.

(75) Therefore, the Irish authorities submit that the recapitalisation measures are limited in amount and form to what is necessary in order to achieve the objectives of limiting the disturbance in the Irish banking system and economy as a whole.

(76) In the opinion of the Irish authorities, it proves that the recapitalisation measures are limited in scope and duration to what is strictly necessary to achieve their objectives.

3.3 Proportionate.

(77) The Irish authorities submit that the proposed terms and conditions associated to the recapitalisation measures (measure (a)), together with the commitments made by BOI under the Subscription Agreement and the terms and conditions that may be imposed under the ELG scheme contain an extensive range of safeguards against possible abuses and distortions of competition. In particular BOI will be subject to the following behavioural conditions:

(i) the State will have a right to appoint 25% of the directors on the Board of Directors of the bank (including those appointed already under the terms of the CIFS as continued under the ELG scheme);

(ii) BOI will not be allowed to use the fact that it received the capital injection for advertisement or promotional purposes;

(iii) BOI committed to use all reasonable efforts to comply with the commitments and undertakings to ensure lending to the real economy which form a bank customer package;

(iv) BOI will be subject to certain restrictions on the terms of remuneration, bonuses, fees and salaries in respect of its employees;

(v) Other restrictions related to payment of dividends, reserves, corporate governance, consultation on matters of public interest, and the use of proceeds of the State investment under the recapitalisation measures.

(78) For those reasons the Irish authorities consider that any negative spill-over effects on competitors, other sectors and other Member States are limited to the minimum necessary to achieve the objectives of the measures.

(79) In relation to the deposit placed by the NTMA with the bank pending the recapitalisation, the authorities submit that the aid element was *minimal* and *proportionate* given the fact

that near normal commercial terms were paid by the bank for the deposit. Furthermore, the deposit was limited in time rolling circa fortnightly.

(80) The bank has accessed ELA and the Minister provided the Central Bank with a letter of comfort such that any shortfall in value on liquidation of the collateral by BOI for advances under ELA would be made good. A Facility Deed is also guaranteed by the Minister for borrowings by BOI. The ELA is managed on normal commercial terms but a fee is currently not payable as the guarantee is in effect to the Central Bank.

(81) Finally, the Irish authorities recall that the revised plan contains certain measures to address appropriate burden-sharing and limit the distortion of competition resulting from the additional aid received since the plan approved on 15 July 2010.

(82) On the basis of that assessment the Irish authorities argue that the measures are consistent with the State aid rules and are compatible with the internal market on the basis of Article 107(3)(b) TFEU.

3.4 Commitments presented by Ireland

(83) The Irish authorities in the context of the restructuring decision have undertaken a number of commitments related to the scope of the divested and run-off entities by BOI as well as regarding behavioural measures to ensure the preservation of the value of these activities and to specifically address the limitation of the distortion of competition resulting from the State support. Those commitments are supposed to ensure that the planned measures would be meaningful and that they will be implemented in the most efficient way and as quickly as possible, without harming the viability of BOI.

(84) The commitments in Annexes I and II to the first restructuring decision have been amended to include the additional businesses and portfolios to be deleveraged and to reflect updates to the commitments. The amended commitments are attached to the present decision in their entirety in Annexes I and II to the present Decision. Commitments presented in Annex I are specific to BOI, and amend the commitments presented in Annex I to the restructuring decision or in that decision itself. Commitments presented in Annex II are of a general nature and replace the State commitments presented in Annex II to the restructuring decision. For the purposes of the present Decision, the Commission has provided a non-exhaustive summary below in recitals 85 to 89.

(85) As regards the actions to be carried out by BOI, Ireland has committed that BOI will divest, in line with the terms of Annex I:

(i) The New Ireland life assurance business (already existing commitment) [...];

(ii) Burdale, its asset-based lending business in the UK and the US (new commitment) [...];

(iii) International Project Finance, a lender for international projects (new commitment) [...];

(iv) The US Real Estate business (new commitment) by [...].

(86) Ireland furthermore commits that BOI will furthermore deleverage the following portfolios, in line with the terms of in Annex I:

(i) UK Intermediary Mortgage portfolio for an amount of EUR [...] billion as at 31 December 2010. Of that amount EUR [...] billion should be deleveraged, including sales of EUR [...] billion, by [...], and EUR [...] billion should be deleveraged by [...];[10]

(ii) [...] Corporate Banking portfolio, for an amount of EUR [...] billion to be sold (including refinancing and redemptions) by [...];

(iii) UK Investment Property Portfolio for an amount of EUR [...] billion. Of that amount EUR [...] billion should be deleveraged, including sales of EUR [...] billion, by [...], and EUR [...] billion should be deleveraged by [...];

(iv) UK Business Banking portfolio for an amount of EUR [...] million to be sold (including refinancing and redemptions) by [...];

(v) UK Corporate Loan portfolio for an amount of EUR [...] billion. Of that amount EUR [...] billion should be deleveraged, including sales of EUR [...] billion, by [...], and EUR [...] billion should be deleveraged by [...].

(87) If BOI does not reach a LDR of 122.5% by[..], Ireland commits that BOI will divest If BOI does not reach a LDR of 116% by […], Ireland commits that BOI will divest its [...]

(88) Ireland furthermore commits that BOI will respect, for the respective periods set out in Annex I, the cap on expenditure on marketing, advertising and sponsorship in Ireland, the ban on acquisitions below the threshold identified in Annex I, the dividend ban on hybrids and ordinary stock and the competition measures set out in Annex I.

(89) Ireland has furthermore provided commitments with regard to changes in the regulatory framework and legislation applying to banks in Ireland which are set out in Annex II. They include measures to improve:

(a) customer mobility and protection;

(b) entry of competitors;

(c) corporate governance.

[10] BOI will not provide mortgage lending to UK customers, with however two exceptions: (i) BOI will provide mortgage lending to UK customers in the context of its UK subsidiary, to which certain of BOI's non-core loan portfolios in the UK will be progressively transferred; and (ii) BOI will provide mortgage lending in the context of its activities in Northern Ireland.

4 ASSESSMENT

4.1 Existence of aid

(90) The Commission first has to assess whether the measures constitute State aid within the meaning of Article 107(1) TFEU. According to that provision, State aid is any aid granted by a Member State or through State resources in any form whatsoever which distorts, or threatens to distort, competition by favouring certain undertakings, in so far as it affects trade between Member States.

Already approved aid measures

(91) With regard to the measures already approved by the Commission in its restructuring decision[11] as restructuring aid, namely measures (a) to (e) in Table 1, being the EUR 3.5 billion recapitalisation of BOI, the CIFS and ELG guarantee schemes in which BOI participated and would participate in until the end of 2010, the transfer of up to EUR 12.2 billion loans to NAMA and the 2010 capital raise, the Commission has already concluded that those measures constitute State aid in favour of BOI. The Commission has also already decided that there is State aid involved in the continued use of the ELG scheme (measure (f)), as well as in the participation of the State in the 2011 capital raise (measure (g))[12]. The Commission notes that Ireland has acknowledged that those measures constitute State aid.

(92) BOI has made use of the ELG scheme beyond the period set out in the restructuring decision. The Commission has approved prolongations of the ELG scheme as State aid, the latest ending on 30 June 2012. Ireland anticipates that BOI will continue to make use of the ELG scheme until [...][13].

Measures to assess in the present decision

(93) The measures for which the Commission has not yet assessed whether they constitute State aid are the deposit of EUR 3 billion by the NTMA in the period May – July 2011 (measure (h), which allowed BOI to carry out the capital raise); and the State guarantee on the ELA (measure (i).

State resources

(94) The Commission find that for both measures under assessment, State resources are involved. The deposit constitutes a direct provision of liquidity by the State to BOI. The NTMA manages assets and liabilities on behalf of the Irish Government and is directly involved together with the Irish Department of Finance in the provision of support to BOI. As for the guarantee on the ELA, the State would have to reimburse the Central Bank

[11] See footnote 1.

[12] See footnote 2.

[13] Subject to Commission approval of the notification of any prolongation of the ELG scheme by Ireland.

should BOI not be able to fulfil its obligations towards it.

Selectivity and advantage to BOI

(95) As both measures are provided directly to BOI, they can be considered as selective. Furthermore, the measures provide an advantage to BOI. The deposit of EUR 3 billion by NTMA was provided to reaffirm the State's commitment to provide BOI with the necessary capital following the 2011 PCAR/PLAR procedures. It therefore provided BOI and its investors with a degree of comfort during the period that BOI was trying to raise the capital itself. That measure is closely connected to measure (g) by which the State committed to provide sufficient capital to BOI in July 2011 in case insufficient private participation to the rights issue. If BOI had needed capital following the 2011 capital raise, the deposits would have been converted into equity.

(96) Concerning the guarantee on the ELA, it provides an advantage to BOI as it enables it to fund its assets at a time where liquidity in the markets is constrained. The guarantee furthermore provides an advantage as it would not be available on the market […]

Distortion of competition and effect on trade between Member States

(97) Both measures can distort competition. The deposits have provided BOI both with liquidity that was not available to other banks active in Ireland and an assurance that if BOI were not able to raise capital, the deposits could be converted. The guarantee on the ELA furthermore enables BOI to get funding from the Central Bank [...]

(98) As BOI both competes with Irish banks and other European banks in Ireland and is also active in the UK where it competes with banks from that Member State and from elsewhere in the EU, the measures have an effect on trade between the Member States.

Application of the market investor principle

(99) Finally, the market economy investor principle does not apply to measures (h) and (i) described in Table 1 that are part of a package of rescue measures in favour of BOI. In particular, those measures are not in line with normal market conduct. No market economy investor would provide such an amount of funding to BOI under current market conditions where liquidity is scarce, BOI's rating is too low for most (institutional) investors and the general risks associated with investing in Ireland are regarded as high. Furthermore, no market investor would be in a position to grant a guarantee on ELA provided to BOI by the Central Bank due to the size of the ELA. Therefore, no market economy operator placed in a similar situation as the State would have been able to provide the amount of cash (deposits) or have had the means to guarantee the funding needed by BOI. Taking into consideration the situation on the markets and the appetite for Irish assets and liabilities, it would not be possible for a market operator to obtain such financing.

4.2 Amount of aid

(100) The Commission in recital 176 of the restructuring decision determined that BOI has

received a high amount of aid of at least EUR [4-5] billion (4-5% RWA), possibly going up to as high as EUR [...] billion if the guarantees under the CIFS and ELG schemes are taken into account. The EUR [4-5] billion aid amount included the recapitalisations and the aid associated with the transfer of assets to NAMA.

(101) Since the restructuring decision, BOI has continued to use the ELG scheme. It furthermore has received EUR 1.2 billion of additional recapitalisation aid, a temporary deposit of EUR 3 billion by the NTMA and a guarantee on the ELA.

(102) As regards the continued use of the ELG scheme since the restructuring decision and possibly until the end of [...] and the guarantee on the ELA, it should be noted that, as regards companies in financial difficulty, if a bank is not able to raise sufficient non-guaranteed debt to cover all its funding needs, the aid element of such guarantees might go up to the level of their nominal value. That was manifestly the case when BOI started to use the CIFS in 2008 and the ELG, the guarantee on short-term liabilities in 2010 and the guarantee on the ELA. In that context, it is noted that the amounts covered by the various guarantees fluctuated over time (CIFS, ELG scheme and ELA) and that the amount covered by the ELG scheme as at [...] is EUR [around 40] billion compared to the EUR [around 50] billion that was mentioned in the restructuring decision. The peak amount of the guarantee on the ELA was EUR [around 15] billion. It is therefore appropriate to add the peak amount of the guarantee covering the ELA to the peak amount of the CIFS and ELG schemes identified in recital 174 of the restructuring decision (EUR [50-100] billion). In that case, the aid associated with the guarantees could amount to EUR [above 100] billion.

(103) It should however be recalled that the participation […] in State guarantee schemes is not taken into account for the calculation of the amount of aid relative to their RWA in order to establish whether an in-depth restructuring is necessary. On the other hand, the aid element in the guarantees will be taken into account in the context of the restructuring. For those reasons, the Commission has not calculated the aid amount associated with those State guarantees.

(104) The entirety of the additional recapitalisation of EUR 1.2 billion received by BOI as a result of the 2011 capital raise should be added to the other recapitalisations received by BOI. The total amount of recapitalisations received by BOI would then amount to EUR [4-5] billion representing [4-5]% of BOI's RWA as at 31 March 2010[14]. If the aid associated with NAMA is added (EUR [...] billion), the aid relative to BOI's RWA increases to [5-6]%.

(105) Regarding the deposits, the Commission finds that given the short time they remained at BOI [...], the fact that they were anticipating the liquidity that would eventually accrue to BOI with the capital raise and the fact that they have been repaid immediately once the 2011 capital raise had been completed, the aid element is sufficiently small not to be

[14] For the purpose of comparison between the present Decision and the restructuring decision, the Commission has used the same RWA for calculating the aid relative to BOI's RWA as it used in the restructuring decision (EUR 97.8 billion).

material for the calculation of the aid amount.

(106) On that basis the Commission concludes that BOI has received a high amount of aid, of at least EUR [5-6] billion ([5-6]% RWA), possibly going up to as high as EUR [above 100] billion if the guarantees are taken into account. That aid amount further confirms the need for in-depth restructuring and gives an indication of the extent of the restructuring required.

4.3 Compatibility assessment

(107) When assessing the compatibility of the second restructuring plan for BOI, it should be first assessed whether Article 107(3)(b) of the Treaty is applicable. Measures (h) and (i) will be assessed under the Banking Communication[15] (measure (g) was assessed under the Banking Communication in the recapitalisation decision), while the second restructuring plan (including measures (g), (h) and (i)) will be assessed under the Recapitalisation Communication[16] and the Restructuring Communication[17].

4.3.1 Legal basis for the compatibility assessment

(108) Article 107(3)(b) of the Treaty permits the Commission to declare aid compatible with the internal market if it is intended "to remedy a serious disturbance in the economy of a Member State". In that regard, market conditions have been difficult worldwide since the last quarter of 2008. Ireland, in particular, has been severely hit by the financial crisis. The economic downturn combined with the fall in property prices and the exposure of the Irish banks to land and property development loans have lead to significant impairments for Irish banks. Irish banks have also been faced with persisting difficulties in obtaining funding and capital from the markets due to the uncertainty associated with the property market in Ireland. As a result, the Irish State has also come under pressure, in the end leading to the Irish Programme for Support.

(109) The Commission has acknowledged that the global financial crisis can create a serious disturbance in the economy of a Member State and that measures supporting banks are apt to remedy that disturbance; that view has been confirmed in the Banking Communication, the Recapitalisation Communication, the Impaired Asset Communication[18] and the Restructuring Communication. In respect of the Irish economy, it has been confirmed in

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[15] Communication on the application of State aid rules to measures taken in relation to financial institutions in the context of the current global financial crisis, OJ C 270, 25.10.2008, p. 8.

[16] Communication from the Commission on the recapitalisation of financial institutions in the current financial crisis: limitation of aid to the minimum necessary and safeguards against undue distortions of competition, OJ C 10, 15.1.2009, p. 2

[17] Communication from the Commission on the return to viability and the assessment of restructuring measures in the financial sector in the current crisis under the State aid rules, OJ C 195, 19.08.2009, p. 9.

[18] Communication from the Commission on the treatment of Impaired Assets in the Community banking sector, OJ C 72, 26.3.2009, p.1.

the Commission's various decisions approving the measures undertaken by Ireland to combat the financial crisis.

(110) Given the specific circumstances in Ireland, combined with the improved but not yet stabilised situation on the financial markets, the Commission considers that the measures may be examined under Article 107(3)(b) of the Treaty.

4.3.2 Compatibility assessment

(111) Before assessing the second restructuring plan for BOI, the Commission will first assess the compatibility of measures (h) and (i).

4.3.3 The application of the Banking Communication

(112) In line with point 15 of the Banking Communication, in order for an aid or aid scheme to be compatible under Article 107(3)(b) of the Treaty it must comply with general criteria for compatibility under Article 107(3) of the Treaty, which imply compliance with the following conditions:

(i) Appropriateness: The aid has to be well-targeted in order to be able to effectively achieve the objective of remedying a serious disturbance in the economy. It would not be the case if the measure were not appropriate to remedy the disturbance;

(ii) Necessity: The aid measure must, in its amount and form, be necessary to achieve the objective. That requirement implies that it must be of the minimum amount necessary to reach the objective, and take the form most appropriate to remedy the disturbance;

(iii) Proportionality: The positive effects of the measure must be properly balanced against the distortions of competition, in order for the distortions to be limited to the minimum necessary to reach the measure's objectives.

(113) Those general criteria apply to any form of State aid, including guarantees and the provision of other forms of liquidity assistance.

(i) Appropriateness

(114) The State guarantee provided on the ELA aims to ensure that BOI remains able to access central bank funding in the form of ELA. The guarantee ensures that BOI continues to have access to such funding even if BOI were to have collateral of insufficient quality. That funding is needed in order to ensure that BOI can continue to fund its assets without which BOI would be at risk of default. The guarantee on the ELA is therefore an appropriate instrument to ensure continued access by BOI to ELA.

(115) The deposits provided by the NTMA to BOI on a temporary basis provided BOI with additional liquidity in the period it was raising the capital required following the PCAR/PLAR procedures. Those deposits would have been converted into the capital required by BOI (EUR 2 billion of equity following the liability management exercises

and EUR 1 billion of contingent capital) had BOI not been successful. Once it became clear that BOI's capital raise resulted in sufficient capital, the deposits were withdrawn. Considering their temporary nature, the deposits were therefore an appropriate instrument to anticipate the liquidity benefits of the capital raise.

(ii) Necessity – limitation of aid to the minimum

(116) According to the Banking Communication, the aid measure must, in its amount and form, be necessary to achieve the aid's objective. That requirement implies that the guarantee and the liquidity support in the form of the deposits must be of the minimum amount necessary to reach the objective.

(117) Both the amount covered by the ELA guarantee and the amount of the deposit provided to BOI are limited to the minimum. The guarantee is provided for an amount limited to EUR [...] billion and does not cover BOI's total funding needs. BOI made use of significantly lower amounts than the limit and only when strictly necessary to maintain its funding position. The guarantee on the ELA has not been used by BOI since February 2011. The amount of the deposits was limited to the capital the State would have had to inject had the 2011 capital raise not been successful.

(118) The Commission notes positively that BOI has not used the guarantee on the ELA since February 2011. BOI will nevertheless be entitled to benefit from a State guarantee to cover ELA requirements for a period until […] and for a maximum amount of EUR [around 5] billion, in order to cover for stress situation. In view of the uncertain market situation and the irregular changes of investors' mood, that measure provides a precautionary cushion guaranteeing access to liquidity for BOI, although under normal circumstances BOI should not need it.

(119) As regards the deposits, it is noted that BOI has paid an interest rate for the NTMA deposits of […] and […] depending on the tranche, which according to BOI is consistent with what it pays on average across the corporate market. The Commission considers that the rate paid on the deposits does not reflect market conditions, in particular considering their very large size and the timing. The Commission considers that the additional advantage granted to BOI should be reflected in the depth of the restructuring.

(120) On that basis it is concluded that the measures are necessary and that the aid is limited to the minimum.

(iii) Proportionality – measures limiting the negative spill-over effects

(121) In this context it should be observed that compared to the first restructuring plan approved by the restructuring decision, BOI will divest additional business and will deleverage more loan portfolios. In total, BOI will deleverage around EU [10-20] billion more compared to the previous restructuring plan. Furthermore, BOI will be subject to behavioural commitments such as an acquisition ban, a dividend ban on ordinary stock and hybrids and market-opening measures which allow competitors to enter the Irish market. Those behavioural commitments were already covered under the restructuring decision, and are extended under the present decision. There are therefore sufficient

measures present to limit the negative spill-over effects of the aid.

Conclusion

(122) It should be concluded that the requirements of the Banking Communication are fulfilled as regards the guarantees on the ELA and the EUR 3 billion deposit.

4.3.4 The application of the Restructuring Communication

(123) The Restructuring Communication sets out the State aid rules applicable to the restructuring of financial institutions in the current crisis. According to the Restructuring Communication, in order to be compatible with Article 107(3)(b) of the Treaty, the restructuring of a financial institution in the context of the current financial crisis has to:

(i) Lead to a restoration of the viability of the bank;

(ii) Include sufficient own contribution by the beneficiary (burden-sharing);

(iii) Contain sufficient measures limiting the distortion of competition.

(i) Restoration of viability

(124) Section 2 of the Restructuring Communication sets out that the Member State should provide a comprehensive and detailed restructuring plan which provides complete information on the business model and which restores the bank's long-term viability.

(125) Point 10 of the Restructuring Communication requires that the restructuring plan identifies the causes of the bank's difficulties and the bank's own weaknesses, and outlines how the proposed restructuring measures remedy the bank's underlying problems. In its restructuring plan, BOI spells out the causes of its difficulties, in particular its risky lending, especially land and property development loans and its high dependence on wholesale funding to fund its operations. Furthermore the speculative property bubble in the Irish construction sector resulted in serious impairments in the bank's portfolio of assets.

(126) The new initiatives in BOI's second restructuring plan, in conjunction with the initiatives undertaken in the first restructuring plan, address the bank's weaknesses. The bank is strengthening the return to a more traditional banking model where it will substantially fund its core loan portfolios through customer deposits, with a projected LDR below [...]% at the end of the restructuring period. That target is the result of an ambitious deleveraging plan for non-core assets and prudent assumption on the evolution of the deposits.

(127) BOI's commitment to achieve a significantly more balanced relationship between loans and deposits is strengthened by the commitment to sell, in addition to all the specific commitments undertaken in the second restructuring plan, its if it does not reach a LDR of 122.5% […] by or 116% by […].

(128) [...]

(129) [...]

(130) On the asset side, the plan envisages a reduction of the balance sheet of [...]% from March 2009 (EUR 194 billion) to December 2015 (EUR [...] billion) and a RWA reduction of [...]% over the same period (from EUR 105 billion to EUR [...] billion). The additional deleveraging in comparison with that envisaged in the first restructuring plan (balance sheet reduction of [...]% and RWA reduction of [...]% over the 2009-2014 period) is significant. As a result of the deleveraging and the funding of its core loan portfolios with retail deposits, BOI's dependence on wholesale funding will reduce significantly.

(131) Furthermore, the second restructuring plan aims at ensuring that BOI fulfils its regulatory capital requirements, i.e. a minimum of 10.5% Core Tier 1 in the base case and a minimum of 6% Core Tier 1 capital in the stress case as imposed by the Central Bank following the 2011 PCAR/PLAR. The Commission observes that BOI meets those minimum capital requirements in both the base and the stress cases.

(132) As regards the deleveraging of the balance sheet the Commission notes positively the specific measures envisaged by the restructuring plan.

(133) The second restructuring plan indicates that BOI will significantly restructure its UK business. As detailed in Annex I (Appendix I therein), BOI will continue the run-down of its UK Intermediary Mortgage Portfolio, therefore withdrawing from the intermediary sourced mortgage market there. Additionally, BOI will sell its Asset Finance (Burdale), International Project Finance and US Real Estate businesses. BOI will also significantly reduce or completely run down its Corporate Loan Portfolio, UK Corporate Banking Portfolio and UK Business Banking Portfolio. Total deleveraging will be of EUR [...] billion since December 2010, including EUR 10 billion in sales.

(134) BOI has strengthened its retail position in Great Britain by incorporating in a UK subsidiary centred on its relationship with the UK Post Office. The subsidiary provides an important access for BOI in the large UK deposit market, and operates on the basis of a prudent LDR not exceeding 100%. In that context, BOI may transfer part of the assets earmarked for deleveraging to its subsidiary, provided that the 100% LDR is complied with.

(135) Those restructuring measures also illustrate that, as envisaged by point 12 of the Restructuring Communication, BOI's plan is mainly based on internal measures and includes withdrawal from activities which would remain structurally loss-making in the medium-term.

(136) The Restructuring Communication also provides that the restructuring plan should demonstrate how the bank will restore its long-term viability without State aid as soon as possible. In particular, the bank should be able to generate appropriate return on equity, while covering all costs of its normal operation and complying with the relevant regulatory requirements. In particular, point 13 of the Restructuring Communication indicates that long-term viability is achieved when a bank is able to cover all its costs including depreciation and financial charges and provide an appropriate return on equity, taking account of the risk profile of the bank.

(137) The economic projections underpinning the second restructuring plan are based on reasonable underlying macroeconomic assumptions, which have been inter alia discussed with and validated by the Commission, the IMF and the ECB in the context of the 2011 PCAR/PLAR exercise and the Irish Programme for Support until the end of 2013. The projections for 2014 and 2015 follow a similarly prudent pattern. Those projections are based on the information and forecasts available at the second quarter of 2011. Economic prospects have seriously worsened in the second half of 2011 and the macro-economic forecasts for Ireland and the United Kingdom are now between the forecasts of the base and the stress scenarios. Those projections will allow BOI to comply with the relevant regulatory requirements even in a stress scenario with a protracted global recession in line with point 13 of the Restructuring Communication.

(138) The Commission considers that BOI will show adequate profitability, based on the second restructuring plan, which includes capital projection over the restructuring period under base case as well as under stress scenario. According to the plan, BOI will [...] and will return to full year profitability in [...], achieving a return on equity of [...]% in [...]. That profitability should allow the bank to cover all its costs and provide an appropriate return on equity, taking account of its risk profile, while complying with the regulatory requirements.

(139) According to the final restructuring plan, BOI will increase its deposits during the restructuring period, which will contribute to improve its funding position. In line with the assumption of the 2011 PCAR/PLAR exercise, BOI deposits are assumed not to increase in Ireland until the end of 2013. [...] Hypotheses for both periods are conservative. For the UK subsidiary, deposit growth is positive throughout the plan, on the basis of recent trends and on the potential for retail growth in exploiting the synergies allowed by the capillary presence of the UK Post Office.

(140) Conscious of the importance of retaining deposits in order to maintain a viable business in the long-term, BOI will not sell its Irish broker mortgage business, the ICS Building Society, which it has committed to sell as part of the first restructuring decision. The sale of ICS would have deprived BOI of EUR [...] billion in customer deposits. While such a commitment was appropriate in the context of the restructuring decision when it was adopted in July 2010, the significant outflows of deposits that took place in the second half of 2010 and, to a lesser extent, in the first half of 2011, made the divestment of ICS contradictory with the goal of ensuring BOI's long-term viability.

(141) The Commission positively notes that BOI actively sought to minimise the amount of additional State aid necessary to fulfil the EUR 5.2 billion capital need (EUR 4.2 billion in equity and EUR 1 billion in contingent capital) identified by the 2011 PCAR/PLAR.

(142) In order to raise the equity, BOI carried out extensive liability management exercises (some of which are ongoing in December 2011) and debt repurchasing, which allowed it to raise EUR [2.3-2.5] billion in equity from bondholders. BOI proceeded with a rights issue in July 2011 for the remaining needs of EUR 1.9 billion. The rights issue was underwritten by the State (for a 4% fee), and subscribed in large part by private parties. The share of the rights issue finally subscribed by the State was lower than its share of

BOI shares, as a consequence of which the State's participation in BOI's capital decreased from 36% to 15%.

(143) The State provided EUR 1 billion of contingent capital to BOI. BOI paid a fee of EUR 15 million for the contingent capital instrument and will pay an annual coupon of 10% over the five-year maturity of the instrument.

(144) The State participation in the capital raise and in the contingent capital issuance was temporarily approved on 11 July 2011 as rescue aid[19].

(145) Finally, the Commission notices that BOI still relies significantly on the Irish ELG scheme. As the extension of ELG scheme until 30 June 2012 has been approved by the Commission, BOI can continue to benefit from guarantees under that scheme. The Commission observes that the second restructuring plan is based on the assumption that the ELG scheme will remain in place until [...]. BOI have provided information on how it will affect the liabilities' side of its balance sheet and how it will deal with the consequences of the release of the guarantees by those dates.

(146) While there is no indication or assurance that the ELG scheme will remain in place until [...], the Commission acknowledges that in the current circumstances it is not incoherent to include in the projections the assumption that, were the economic and financial situation not to improve, the specific crisis rules relating to State aid under Article 107(3)(b) TFEU may continue to apply. Were the economic and financial situation to improve so that there would be no further scope for the application of Article 107(3)(b) TFEU, then it is likely that the other assumptions and projections in the second restructuring plan (regarding e.g. the extent to which BOI would be able to obtain funding on the market) would prove overly conservative. In such a scenario, BOI would be capable of obtaining the funding necessary to support its operations without a State guarantee.

(147) Taking into account the above elements, the Commission considers that the restructuring plan of BOI is necessary and sufficient to ensure the restoration of the long-term viability of the bank.

(ii) Burden-sharing

(148) The Restructuring Communication indicates that an appropriate contribution by the beneficiary is necessary in order to limit the aid to a minimum and to address distortions of competition and moral hazard. In particular, it provides that (i) the restructuring costs should be limited while (ii) the aid amount should be limited and a significant own contribution is necessary.

Limitation of the restructuring costs

(149) The Restructuring Communication indicates in point 23 that the restructuring aid should

[19] See footnote 2.

be limited to cover the costs which are necessary for the restoration of viability.

(150) The Commission considers that requirement is satisfied in the present case. The actions taken to limit the restructuring costs up to the restructuring decision of 2010 have been analysed therein. The assessment of the actions taken since the restructuring decision is presented below.

(151) In the 2011 recapitalisation decision the Commission concluded that the recapitalisation of BOI was indeed a necessary and appropriate means to strengthen the bank's capital base with the aim of restoring market confidence in the Irish financial sector. The recapitalisation needs were determined by the Central Bank in the context of PCAR/PLAR process, which was carried out in consultation with the Commission, the IMF and the ECB as part of the Irish Programme for Support. The Commission concluded that taking into account, in particular, the bank's exposure to the property market, the capital injection of EUR 5.2 billion, EUR 1 billion of which in contingent capital, was the minimum necessary to remedy concerns about the stability of BOI and thus the Irish financial system.

(152) The Commission acknowledges the significant efforts undertaken by BOI to reduce to the minimum possible the participation of the State in the capital raise. In particular, it is very positive that out of the EUR 4.2 billion of equity capital necessary, EUR 4 billion was raised on the market through liability management exercises, debt-for-equity swaps, and rights issues, thus limiting the necessary intervention of the State to EUR 200 million in equity and reducing the shareholding of the State in BOI from 36% to 15%.

(153) The EUR 1 billion in contingent capital subscribed by Ireland has a five-year maturity, and pays an annual coupon of 10%, ensuring a limited time frame for the State's commitment under the plan and providing adequate remuneration.

(154) Guarantees under the ELG scheme comply with the pricing and other conditions for guarantees on bank liabilities. The State guarantee on the ELA is limited in time and to the strict extent necessary and has not been used since February 2011. In addition the ELA is only triggered if the bank has no other funding possibility and the application of the ELA guarantee is thus limited to the minimum necessary.

(155) Finally, the NTMA deposits have been an appropriate instrument to provide adequate temporary funding to BOI in advance of the recapitalisation of July 2011.

(156) Furthermore, the Commission also notes positively the commitment of the Irish authorities that the beneficiary will not acquire any financial institutions or conduct acquisitions that would alter the beneficiary's business model until the earlier of: (i) 31 December 2015; or (ii) the date by which the preference shares held by the government and the contingent capital will be repaid in full. That acquisition ban gives additional assurance that the restructuring plan and costs will be focused on restoring the viability of the core existing activities and that the bank will not use its own resources or the State support for external growth.

(157) On the basis of the above elements, the Commission concludes that the restructuring costs

are limited to the minimum necessary and that the second restructuring plan of BOI can be considered to contain major additional efforts in comparison with those foreseen in the first restructuring plan.

Limitation of the amount of aid, significant own contribution

(158) The Restructuring Communication indicates that, in order to keep the aid limited to a minimum, the banks should first use their own resources to finance the restructuring. The costs associated with the restructuring should not only be borne by the State but also by those who invested in the bank. That objective is achieved by absorbing losses with available capital and by paying an adequate remuneration for State interventions.

(159) First, the Commission has to verify whether the aid amount is limited to the minimum necessary.

(160) As regards the measures linked to the capital needs of EUR 5.2 billion identified in the 2011 PCAR/PLAR process, the Commission recalls its conclusion in the 2011 recapitalisation decision that the intervention was necessary and appropriate in the circumstance at the time. The Commission further notes that the need for additional State aid has been limited to a significant extent by the liability management exercises carried out in July and December 2011, while new capital has been raised on the market. Incumbent shareholders had to provide fresh capital to finance the restructuring costs, or significantly diluted in the capital raise.

(161) The liability management exercises carried out by BOI between the first restructuring decision and December 2011 resulted in crystallised losses to bond holders of circa EUR 3 billion. Therefore, the Commission considers that the holders of those securities have contributed to the financing of the restructuring costs. The Commission notes positively that in the overwhelming majority of the exercises BOI complied with the Commission's policy on Tier 1 and Tier 2 capital instruments set out in point 26 of the Restructuring Communication.

(162) In one instance […], however, BOI bought back a […] instrument (nominal amount of EUR […]) at a discount of […]. The Commission takes note of the arguments of the Irish authorities on the impossibility to buy back the instrument at a deeper discount and on the necessity of the transaction […][…].

(163) The Commission therefore considers that for that particular transaction burden-sharing was insufficient, which should be reflected in the depth of the restructuring. In doing so, account should nevertheless be taken of the isolated nature and limited size of the transaction in question as compared to the significantly more numerous times for significantly larger amounts in which BOI fully complied with the Commission's policy.

(164) BOI has not been subject to a coupon ban since 31 January 2011, when it had to pay a coupon to the State on the latter's remaining preference shares. The Commission considers that a coupon ban is not necessary as part of the second restructuring plan, as virtually all subordinated debt which could be subject to such a ban has been bought back in the various liability management exercises. Indeed, the only sizeable hybrid capital

outstanding is the EUR 1.8 billion of government preference shares, for which the payment of the coupon constitute a positive element of burden-sharing. Outstanding subordinated debt/non-State preference shares stand at approximately EUR 450 million, of which approximately EUR 90 million have discretionary coupons and could be subject to a coupon ban. The annual coupon on the discretionary securities is approximately EUR 9 million at current rates, while the annual dividend on the State preference shares is EUR 188 million (EUR […] nominal at a coupon of 10.25%).

(165) The Commission notes that BOI intends to repay the outstanding EUR 1.8 billion of government preference shares (yielding an annual coupon of 10.25%) by March 2014, and to repay the EUR 1 billion contingent convertible capital (yielding an annual coupon of 10%) at maturity in 2016. That envisaged exit strategy for the State is a favourable factor aiming at limiting the aid to the strict minimum. Furthermore, BOI agreed not to distribute any dividend on ordinary stock until the earlier of (i) 31 December 2015 or (ii) the date by which the preference shares held by the government will be repaid in full. That dividend ban gives additional assurance that BOI will focus on reimbursing the preference shares as soon as it can, and will not divert resources from the exit path agreed to remunerate shareholders.

(166) As regards the contribution of BOI to the financing of the restructuring costs, the Commission observes that BOI has undertaken or has committed to undertake significant measures to maximise the contribution of the bank and its stakeholders to the restructuring costs. The Irish authorities have committed to divest BOI's life insurance business New Ireland and a number of other divestments in BOI's corporate and wholesale activities (International Project Finance, Burdale Asset Finance and US Real Estate).

(167) Finally, the Commission considers that the rate paid on the NTMA deposits does not reflect market conditions, in particular considering their very large size and the timing, so that the average rate paid by corporate customers might be too low. In consequence, this measure results in a need for further in-depth restructuring for BOI.

(168) More generally, the aid package granted after the first restructuring plan (measures (f), (g), (h) and (i)) substantially increases the aid received by BOI. That increased aid package also results in additional restructuring needs and a need for more significant own contribution by BOI to its restructuring than under the first restructuring plan.

(169) Accordingly, the Commission considers that the second restructuring plan of BOI is sufficiently in-depth and presents major additional efforts in comparison to the first restructuring plan. Under the second restructuring plan BOI will significantly increase the deleveraging of its non-core activities and refocusing of its operations on the Irish domestic market and on its retail UK operations. BOI will engage in particular in major deleveraging efforts if compared with the first restructuring plan, with EUR 36.9 billion of assets to be deleveraged (including EUR 10 billion of sales) amounting to [...]% of BOI's balance sheet. In addition, BOI has committed to a contingency divestment in case it does not reach its targets for LTD in […] and […]. Under the first restructuring plan, BOI only committed to deleverage at least EUR [...] billion of assets (sales of ICS and deleveraging of part of the UK intermediary mortgage book) and did not have any contingent

divestment. Finally between July 2010 and December 2011 BOI has engaged in major liability management exercises almost fully wiping out subordinated bondholders (which crystallised losses of circa EUR 3 billion).

Conclusion on burden-sharing

(170) On the basis of the above elements, the Commission concludes that the restructuring plan of BOI ensures that the restructuring costs are limited to the minimum necessary, that the aid is limited to the minimum and that the beneficiary, its shareholders and its debt holders provide for a significant own contribution to the restructuring costs. Regarding the single instance in which a liability management exercise did not result in full burden-sharing according to the Commission's policy, the Commission considers that the additional advantage granted to BOI should be reflected in the depth of the restructuring. Similarly, regarding specifically the NTMA deposits (measure (h)), it is concluded that the low rate paid for the NTMA deposits should be reflected in the depth of the restructuring. Finally, in view of all the additional measures granted to BOI in comparison to the first restructuring plan (measures (f), (g), (h) and (i)), the second restructuring plan of BOI should contain major improvements in comparison to the first BOI restructuring plan. Considering the major additional deleveraging effort undertaken by BOI (see recital 169), it is considered that the second restructuring plan meets that need.

(171) The second restructuring plan thus complies with section 3 of the Restructuring Communication.

(iii) Measures limiting the distortion of competition

(172) Points 30 to 33 of the Restructuring Communication set out the criteria the Commission will apply when assessing the effectiveness of measures limiting the distortion of competition. Those measures should be tailor-made, taking into account the need for such measures and the size, scale and scope of the bank's activities after the implementation of the restructuring plan (point 30). In its assessment the Commission will take into account the amount of aid received and the likely effects of the aid on the markets where the beneficiary bank, once it is viable, will operate. The measures will be tailored to the market characteristics to make sure that effective competition is preserved. In that context, the Commission can take into account that divestments may have adverse consequences on the market and may therefore not be necessary (point 32). Furthermore, the Commission will pay attention to the risk that restructuring measures may undermine the internal market and will view positively measures that help to ensure that national markets remain open and contestable (point 33).

(173) The Commission observes that, given the particular situation in the Irish economy (a deep recession combined with a dramatic fall in property prices, high unemployment and a sovereign crisis that led to the Irish Programme for Support) and its financial markets (a situation of distress for all domestic institutions and the retrenchment of foreign competitors), a careful assessment is necessary of the market conditions and the competitive environment. The measures limiting the distortion of competition should reflect the difficult circumstances in Ireland in the short-term, while ensuring that the distortion of competition is limited to a minimum both in the short-term and the long-

term. In the first restructuring decision, the Commission assessed the position of BOI on the Irish market and the particular situation in Ireland. Since July 2011, the deepening of the economic and sovereign crisis combined with the continuing difficulties on the real estate market continue to weigh negatively on the competitive environment for retail financial markets.

(174) Amid depressed demand for credit, there is very little supply available beyond the two domestic 'pillar' banks BOI and AIB (merged with EBS), and the third domestic institution ILP. As a result of the 2011 PCAR/PLAR exercise, domestic banks have refocused their operations to focus on the needs of the Irish economy and reduce their non-core activities, which have been identified mostly abroad.

(175) There is still no sign that foreign competitors, whether incumbent or new, are willing to increase their presence in the Irish market in the short-term. When assessing the measures addressing distortion of competition associated to the restructuring of BOI, the Commission has therefore to take into consideration the lack of potential investors on the short-term, and the retrenching of several foreign banks from Ireland.

(176) The Commission has assessed the second restructuring plan by BOI, combined with the measures to be implemented at national level by the Irish authorities, against that background.

Measures specific to BOI

(177) Several measures specifically target BOI specifically, namely (i) the reduction of its presence in several markets due to transfer or winding-down of assets; (ii) its divestment of subsidiaries or participations; and (iii) the market-opening measures targeted at small and new competitors.

(i) Reduction of BOI's market presence

(178) BOI will reduce its balance sheet and its market presence through the divestment of several of its businesses and the restructuring of its UK business, including the run-off of several UK loan portfolios as described in detail in Annex I. The plan envisages a reduction of the balance sheet of [...]% from March 2009 to December 2015 and a RWA reduction of [...]% over the same period. The additional deleveraging to the first restructuring plan (balance sheet reduction of [...]% and RWA reduction of [...]% over the 2009-2014 period) is significant.

(179) The bulk of BOI balance sheet reduction will be in the UK and international markets. BOI will not reduce its balance in Ireland significantly, notwithstanding its high market share in that country. As explained above, that limitation is due to the necessity to continue providing credit to the Irish economy and to the lack of potential buyer or new entrants which could take the place of a reduced BOI in the Irish markets in the short-term.

(ii) Divestments

(180) BOI plans to sell several subsidiaries and participations.

(181) As part of the commitments provided in the first restructuring decision, BOI has sold BIAM, its stake in Paul Capital and FCE, subsidiaries active in banking sector. Those businesses were sold well ahead of the deadline set in the first restructuring decision, [...].

(182) BOI will sell the life assurance business New Ireland. The deadline for that commitment will be [...], instead of [...] as fixed in the first restructuring decision, in view of the current difficult situation in the Irish markets and the lack of appetite for corporate acquisitions.

(183) BOI will not sell two businesses that were included in the commitments of the first restructuring decisions. Firstly, BOI will not sell its Irish broker mortgage business, the ICS Building Society. That modification is necessary to ensure BOI's long-term viability. Indeed, the sale of ICS would have deprived BOI of EUR [...] billion in customer deposits, and between EUR [...] billion and EUR [...] billion in assets. While such a commitment was appropriate in the context of the July 2010 restructuring decision, the significant outflows of deposits that took place in the second half of 2010 and, to a lesser extent, in the first half of 2011, made the divestment of ICS contradictory with the goal of ensuring BOI's long-term viability.

(184) Secondly, BOI will not sell its 16.8% stake shares in ICB (Irish Credit Bureau), with an estimated value at the time of the first restructuring decision of EUR [...] million. ICB operates an electronic database that contains information on the performance of credit agreements and credit history between financial institutions and borrowers. As the ICB database is available to all banks who request access, potential purchasers of BOI's stakes would not have benefitted from privileged access to history data. The rationale of the commitment in the first restructuring decision was that a potential acquirer would influence the activity of ICB and improve its capabilities, thereby improving competition.

(185) That rationale has been however surpassed by recent events, and in particular the decision of Ireland, in the context of the Irish Programme for Support, to set up a new Central Credit Registry, for which legislation will be published by September 2012. The proposed new credit registry will include information on loans, with the aim of supporting more informed lending and enhance bank supervision. The new credit registry will provide, in an improved form, similar information to that supplied by the privately-owned ICB. It will thereby provide the pro-competitive effects sought with the commitment in the first restructuring decision. The sale of ICB is therefore no longer appropriate.

(186) BOI will sell further businesses as part of the second restructuring plan. In particular, by […] BOI will sell (i) its International Project Finance business, with approximately [...] full-time equivalent staff, offices in London, Stamford and Sydney and a total book size of EUR [...] billion as of 31 December 2010; (ii) its Burdale business, a provider of asset-based lending, [...] employees, operations in the UK and the US and total assets of EUR [...] billion (and approved limits of EUR [...] billion); and (iii) its US Real Estate business, with operations concentrated in the US, [...] full-time equivalent staff, and EUR [...] billion total book size at 31 December 2010.

(187) Finally, BOI committed to sell its […] business if it does not reach a LDR of 122.5% by […] (Divestment Period: by […]) or 116% by […] (Divestment Period: by […]). […][…]

(iii) Market-opening measures

(188) BOI reaffirmed it commitment to offer to new entrants or to small banks already active in Ireland a Service Package and a Customer Mobility Package.

(189) The Service Package will aim at reducing the cost of entry or the cost of expansion of a competitor. The services will be provided at incremental cost by BOI (costs directly incurred by the provision of that service). In particular the beneficiary of the Service Package will receive support for several back-up functions (such as clearing, treatment of paper transactions) at incremental cost, and may then decide to invest in its own infrastructure only at a later stage when its customer base is large enough to absorb fixed costs. The beneficiary will also access the ATM network of BOI at incremental cost, immediately offering a national coverage to its customers.

(190) The Customer Mobility Package will reduce the costs of customer acquisition for its beneficiaries. The beneficiaries will contact BOI customers, via BOI, and will present them with alternative products for their current accounts or their credit card products. Although it is difficult to predict how many BOI customers will decide to switch their banking products to the beneficiaries of the measure, the Commission considers that customer approach is more targeted and less costly than general advertisement measures.

(191) In consideration of the prolonged difficulties in the Irish financial markets and the very likely lack of competitors who could be interesting in benefitting in the short-term, the period of application of the market-opening measures will shift by one year, and will span the period from 1 January 2013 to 31 December 2015 (it was 1 January 2012 to 31 December 2014 in the first restructuring decision).

Measures to be implemented by the Irish authorities

(192) In the first restructuring decision, the Irish authorities committed to undertake several actions in order to improve competition on the Irish markets.

(193) The Commission continues to consider that the adoption of alternative measures is necessary considering the current difficulties in the Irish economy and the financial markets, to complement the direct restructuring of the large institutions in their domestic market. As domestic banks continue to play a vital role in the provision of lending to the Irish economy, any restructuring action needs to take into account the necessity to preserve their core activities in Ireland.

(194) Since the first restructuring decision, the Irish authorities have implemented several of the commitments undertaken. For some, however, there have been delays with respect to the deadlines committed in the first restructuring plan. The delays were in large part explained by a change in government and adaptation of parliamentary priorities following the start of the Irish Programme for Support and the early parliamentary elections in February 2011.

(195) Ireland has proposed a new set of measures, which reaffirms and complements the measures committed in the first restructuring plan aimed at restoring the competition and enhancing consumer protection in the Irish financial sector. The measures cover: (a) customer mobility and protection; (b) entry of competitors; (c) corporate governance.

a) Customer mobility and protection

a.1) Customer mobility

(196) The Commission notes positively the measures enhancing customer mobility and considers them as a key element of a competitive banking market. The Commission shares the view of the Irish authorities that measures promoting customer mobility between banks would be expected to have a high impact in safeguarding competition notwithstanding the retrenchment that is occurring in the banking sector in Ireland.

(197) As foreseen in the first restructuring decision, the Irish Banking Federation's switching codes were put on a statutory basis to the benefit of consumers. The review of the provisions contained in the switching codes will take place by […]. Part of the remit of the review will be to consider measures to enhance the switching code and the competitive landscape in general, in order to facilitate competition by encouraging a level playing field in the marketplace.

(198) Measures regarding bundling of financial products, which will help remove impediments to customer switching, will be implemented by 1 January 2012.

a.2) Provision of information

(199) The Commission positively acknowledges the commitment to improve the provision of information in the banking sector which will help the retail banking market in Ireland function effectively, since consumers will be given the tools to seek value in the provision of banking services. The commitment to undertake major development of the cost comparisons to support consumer decision-making, which will be operative by 31 December 2011, will improve consumer protection and competition.

(200) The Commission also positively acknowledges the completion of the commitments in the first restructuring plan regarding the possibility for banks to use as part of their communication to clients the independent cost comparisons carried out by the National Consumer Agency.

a.3) Improved transparency to facilitate consumer decision-making

(201) The Commission notes positively the commitment to improve the transparency and the quality of information on fees and interest rates. Supporting the decision-making process for consumers by enhancing transparency will have a significant impact on competition. An informed customer base could be an attractive prospect for any new entrant and it could support competitive behaviour on the part of incumbents. New entrants should also be encouraged by the measures as they provide a platform of comparable information on which to base customer recruitment and marketing campaigns. Comparable information is necessary for switching decisions. If consumers perceive that not enough is to be gained

by switching or too much time is involved in working out what their accounts are costing them, then it will discourage them from taking action.

(202) The Commission notes positively that providing better quality information constitutes an important improvement of the current situation in the Irish market. To the extent that it has not been already achieved by the Payment Services Directive[20], the proposed changes are expected to improve the availability of information on fees and charges for consumers. Increasing transparency and comparability of costs and products could encourage consumers to seek better value.

a.4) Financial inclusion

(203) The Commission notes positively the commitment to promote financial inclusion and to support the availability of a basic bank account. The Commission shares the view of the Irish authorities that it is essential to address the issue of financial exclusion, whereby certain segments of the population do not have access to basic financial services and products. Basic banking services are increasingly similar to utilities – necessary for living in a modern economy - and the detrimental effects of financial exclusion are well documented both in Ireland and internationally.

b) Entry of competitors

b.1) Electronic banking

(204) The Commission acknowledges positively the commitment to enhance electronic banking. Electronic banking is a key element in promoting competition in the Irish financial services market. The requirement to build and maintain a costly branch distribution network is a significant barrier to entry which can be substantially mitigated through the use of electronic banking. The implementation of a comprehensive online banking platform by banks in the Irish market is currently restricted by a number of provisions in Irish legislation which prevent the provision of certain legal agreements and associated correspondence in electronic format.

(205) Therefore, the Commission takes into account positively the initiatives to promote electronic banking which are expected to make a significant contribution to modernising the payments system in Ireland and which are to be put into place by the end of the second quarter of 2012.

(206) The Commission shares the view of the Irish authorities that it is vital that smaller banks and potential new entrants into the market are able to exploit electronic banking effectively to compete with larger banking operations. It will also be underpinned by

[20] Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007 on payment services in the internal market amending Directives 97/7/EC, 2002/65/EC, 2005/60/EC and 2006/48/EC and repealing Directive 97/5/EC, OJ L 319 , 5.12.2007, p. 1.

progress in the Single Europe Payment Area (SEPA) initiative which enables cross-border provision of banking services.

b.2) SEPA migration

(207) The Commission acknowledges that the delays regarding the commitment on SPEA migration in comparison with the timing laid down in the first restructuring decision are in part due to the fact that there are not yet any stable regulations regarding the implementation of SEPA. The Commission notes in that respect that many Member States have not yet fully implemented the SEPA migration plan. Implementation of that SEPA migration plan for the central Government departments ahead of the foreseen timeline for implementation under the forthcoming Regulation on SEPA migration[21] should enhance competition in the payments market leading to technological innovation, while enabling customers to live and work in any Member State and continue to operate a single bank account.

b.3) Improved quality and availability of credit history information and reporting by banks

(208) Institutional arrangements for the provision of information on credit histories will be restructured to conform to best international practice for the provision of high-quality credit history information. The government will bring forward legislation to establish a statutory credit risk register by the end of 2012. Banks will be required – when making reports to credit bureaux - to identify those customers who engage positively with lenders in relation to arrears and especially those with whom the institution has agreed a re-scheduled arrangement to allow new entrants to assess credit risk on a more granular level.

(209) The Commission is of the view that improving the quality of availability of the credit history is an important step to improve competition, since a well-functioning credit history market could support competition in lending. Access to high-quality credit history information facilitates entry into the market which in turn promotes consumer choice and competition in the banking sector. In addition, improved quality of credit history information should enable banks to better assess the credit risk of customers and to thereby contribute to a more efficient allocation and distribution of credit, including to small and medium-sized enterprises.

(210) The Commission shares the view of the Irish authorities that improved provision of information on credit histories is essential to conform to international best practice standards and to underpin a properly functioning competitive market taking fully into account legal confidentiality and data protection requirements.

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[21] Proposal for a Regulation of the European Parliament and of the Council establishing technical requirements for credit transfers and direct debits in euros and amending Regulation (EC) No 924/2009 of 16 December 2010, available at http://ec.europa.eu/internal_market/payments/sepa/ec_en.htm.

c) Corporate governance

Strengthening corporate governance in the financial sector

(211) The Commission notes positively the commitment to introduce corporate governance measures. The failure of corporate governance at a number of Irish-authorised credit institutions in recent years is to be considered one of the most important causes of Ireland's banking crisis. In particular, the Commission considers positively the adoption of the Corporate Governance Code for Credit Institutions and Insurance Undertakings, the Related Party Lending Code, the Fitness and Probity regime and the Corporate Governance Code. The Commission also notes positively the commitment to ensure that no director of a credit institution with a significant retail customer presence in Ireland will become or remain a director of any other credit institution with a significant retail customer presence in Ireland, except where such entities are within their group.

Measures concerning the Irish Competition Authority

(212) The Commission considers the improved empowerment of the national independent authorities as an important tool enabling them to act best in the interest of competition and consumers. In that context, the Commission notes positively the intention of Ireland to move from emergency legislation towards a normalised merger control system, by repealing section 7 of Credit Institutions (Financial Support) Act 2008, which limits the role of the Irish Competition Authority to perform merger control in the financial sector.

d) Conclusion on the measures put forward by the Irish authorities

(213) In the Commission's view the proposed general measures put forward by the Irish authorities are adequate to complement the compensatory measures to be undertaken by the bank.

Conclusion

(214) Taking into account the particular situation in Ireland and the significant reduction of scale of the bank, the Commission considers that the measures proposed by BOI and the Irish authorities are sufficient and adequate to address possible distortions of competition.

4.4 Monitoring

(215) The Irish authorities have committed to submit regular reports on the measures taken to comply with this Decision. The first report will be submitted to the Commission not later than six months after the adoption of this Decision, as sought by point 46 of the Restructuring Communication. Thereafter, the Irish authorities will report at six monthly intervals.

5 CONCLUSION

The Commission concludes that the State underwriting of a capital raise for EUR 1.9 billion, the effective recapitalisation for EUR 0.2 billion, the deposit by the NTMA of EUR 3 billion, the 3.5 billion recapitalisation, the State guarantee on ELA and all guarantees granted in relation to BOI under the ELG scheme constitute State aid within the meaning of Article 107(1) TFEU.

In the light of the second restructuring plan submitted by the Irish authorities for BOI the Commission raises no objection to the aid measures as restructuring aid as they are compatible with the internal market in light of the commitments as set out in Annexes I and II, pursuant to Article 107(3)(b) TFEU.

If this letter contains confidential information which should not be disclosed to third parties, please inform the Commission within fifteen working days of the date of receipt. If the Commission does not receive a reasoned request by that deadline, you will be deemed to agree to the disclosure to third parties and to the publication of the full text of the letter in the authentic language on the Internet site: http://ec.europa.eu/eu_law/state_aids/state_aids_texts_en.htm
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Yours faithfully,

For the Commission

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Annex I – Amended Term Sheet

TERM SHEET ADDENDUM (CASE SA.334432011/N) to TERM SHEET (CASE N546/2009 (SA.29572))

BANK OF IRELAND REVISED 2011 EU RESTRUCTURING PLAN

This Term Sheet Addendum is in addition to the Term Sheet as annexed to the European Commission Decision "State aid N546/2009 – Restructuring of Bank of Ireland" ("Term Sheet N546/2009") and adopted on 15 July 2010.

This Term Sheet Addendum (hereafter referred to as "this Term Sheet") reflects:

(a) the changed economic circumstances since the European Commission took its decision of 15 July 2010;

(b) the impact of the international agreements approved by Dáil Eireann on 15 December 2010, pursuant to Article 29 of the Irish Constitution, collectively the "Programme of Support for Ireland", to which the European Commission was a party;

(c) the requirement of BOI to raise further capital in order to meet the new ongoing target of 10.5% Core Tier 1 capital ratio (minimum Core Tier 1 ratio of 6% under the stress scenario) as mandated by the Central Bank of Ireland and endorsed by the EU/IMF;

(d) BOI's final Revised 2011 EU Restructuring Plan as submitted on 29 July 2011 based on a "zero balance sheet growth" scenario and for a 5 year period to 31 December 2015, as directed by the European Commission Directorate General for Competition and Ireland's Department of Finance;

(e) the investment of up to €1.123bn in BOI by a group of significant institutional market economy investors and fund managers and thereby minimising the need for further State aid as part of the 2011 Capital Raising Exercise (as defined herein);

(f) additional conditions being imposed by the European Commission on BOI in order for it to be able to approve the further State aid provided to BOI since 15 July 2010 as detailed in particular in Clause 2.1 herein.

The provisions of Term Sheet N546/2009 shall, save as amended, modified, deleted or added to in this Term Sheet continue in full force and effect, and shall be read and construed as one document with this Term Sheet.

In the event of a conflict between Term Sheet N546/2009 and this Term Sheet, then this Term Sheet shall prevail.

1.0 Definitions

In this document, unless the context requires otherwise, the singular shall include the plural (and vice versa) and the capitalised terms used herein have the same meanings as defined in Term Sheet N546/2009, unless the context otherwise requires or provides or identifies as amended definitions below. Certain definitions may vary dependent on context as described in Clauses 2.6 and 2.7 herein.

The following words shall have the following meanings:

Amended Definitions The definitions in Term Sheet N546/2009 are amended or replaced (as may be) by the following definitions. The paragraph numbers used below for the amended definitions are the same numbers as used in the corresponding definitions in Term Sheet N546/2009.

1.8 "Corporate Loan Portfolios" means that part of the corporate loan portfolios designated as non core under the 2011 PCAR/PLAR Procedures (details of which are set out in Annex I). For the avoidance of doubt, the Corporate Loan Portfolio definition in paragraph 1.8 of Term Sheet N546/2009 is deleted and replaced, with immediate effect, with this definition;

1.14 "Divestment Business" shall have the same meaning as in Term Sheet N546/2009 (i.e., the definition in paragraph 1.14 of Term Sheet N546/2009), but shall be amended to add (i) Burdale; (ii) International Project Finance; and (iii) US Real Estate as divestment businesses and shall be amended to delete (i) ICS; and (ii) ICB;

1.32 "Market Share" means the proportion of the market, expressed in percentage terms, for (i) stock or (ii) flow, held by an undertaking in any particular market in Ireland (being a market for a Relevant Product) and as measured on a suitable practical basis by an independent external research source, including regulatory returns proposed by BOI and approved by the Monitoring Trustee (which approval shall not be unreasonably withheld) on a case by case basis before the Date of Request. For the avoidance of doubt, the Market Share definition in paragraph 1.32 in Term Sheet N546/2009 shall be deleted in its entirety and replaced, with immediate effect, with this definition;

1.36 "Monitoring Trustee" shall have the same meaning as in Term Sheet N546/2009 (definition in paragraph 1.36 of Term Sheet N546/2009), but shall include the duty to monitor BOI's compliance with the conditions and obligations as modified, deleted or added to by this Term Sheet and as attached to the 2011 Final Decision;

1.49 "Relevant Competitor" means an undertaking licensed in Ireland or elsewhere to operate as a credit institution in Ireland and which has (by virtue of all related undertakings) at the Date of the Request a Market Share of less than 15% of stock of the Relevant Product market based on a Market Share measurement by an independent external research source, including regulatory returns proposed by BOI and approved by the Monitoring Trustee For the avoidance of doubt, the Relevant Competitor definition in paragraph 1.49 in Term Sheet N546/2009 shall be deleted in its entirety and replaced, with immediate effect, with this definition;

1.50 "Relevant Product" shall have the same meaning as in Term Sheet N546/2009 (definition in paragraph 1.50 of Term Sheet N546/2009), but shall also include the additional Relevant Products of: (i) Mortgages; and (ii) SME Loans;

1.52 "Deleveraging" or "Deleverage" or "Deleveraged" means without limitation, all or part of (i) the wind-down; (ii) shrinkage of the BOI balance sheet through cessation of new business, customer redemption, repayments by clients/customers, sales of assets or interests to other syndicate or consortium members, and refinancing by other lenders; (iii) transfer of loan assets to the UK Subsidiary; and (iv) Deleveraging Loan Portfolio Target Disposals. For the avoidance of doubt, the run-off definition in paragraph 1.52 of Term Sheet N546/2009 shall be deleted and replaced, with immediate effect, with this Deleveraging definition;

1.53 "Schedule" means a schedule in Term Sheet N546/2009 and as amended, deleted or added to in this Term Sheet and any new Schedules in this Term Sheet. These Schedules form part of the Term Sheets. The Schedules are an integral part of the Term Sheets and equally binding. However, headings to Schedules are for convenience only and are not binding. The "Schedule" definition 1.53 in Term Sheet N546/2009 shall be deleted and replaced, with immediate effect, with this definition;

1.57 "UK Intermediary Mortgage Loan Portfolio" means that part of the UK Intermediary Mortgage Loan Portfolio designated as non core under the 2011 PCAR/PLAR Procedures as set out in Annex I and excludes any UK intermediary mortgage loans after they have been transferred to the UK Subsidiary. The definition 1.57 of "UK Intermediary Mortgage Portfolio" in Term Sheet N546/2009 is deleted and replaced, with immediate effect, with this definition;

1.58 "UK Subsidiary" means that subsidiary of BOI which has been incorporated in the UK by BOI with the approval of the UK Financial Services Authority and into which certain of BOI's non core loan portfolios in the UK will be transferred, as approved by the UK Financial Services Authority. Definition 1.58 of "UK Subsidiary" in Term Sheet N546/2009 is deleted and replaced, with immediate effect, with this definition;

New Definitions

The definitions in Term Sheet N546/2009 are supplemented by the following definitions:

1.0.1 "2010 Measures" means the obligations imposed on BOI under Term Sheet N546/2009;

1.0.2 "2011 Capital Raising Exercise" means the Proposals as set out and defined in the BOI Prospectus published on 18 June 2011;

1.0.3 "2011 Final Decision" means the decision in which the European Commission takes a decision regarding the Revised 2011 EU Restructuring Plan and all the State aid granted to BOI (i.e. Case SA.33443, 2011/N), thereby including the 2011 Measures;

1.0.4 "2011 Measures" means the 2010 Measures as amended, modified, deleted and added to, with immediate effect, under this Term Sheet;

1.0.5 "2011 PCAR/PLAR Procedures" means the 2011 prudential capital assessment review and prudential liquidity assessment review undertaken by the Central Bank of which the results were announced on 31 March 2011;

1.0.6 "2011 Revised Restructuring Period" means the period from the Date of the 2011 Final Decision to 31 December 2015;

1.1.1 "Annex I" means the confidential annex to this Term Sheet containing details of the balances as at 31 December 2010 and maximum Disposal Discounts of the Non Core Divestments and Deleveraging Loan Portfolios;

1.1.2 "Annex II" means the confidential annex to this Term Sheet containing details of the maximum Disposal Discounts of the Contingent Assets Target Disposal;

1.3.1 "BOI Prospectus" means the Prospectus published by BOI on 18 June 2011;

1.4.1 "Burdale" means BOI's comprehensive asset based lending business as described further in Schedule 12 herein;

1.6.1 "Central Bank" means the Central Bank of Ireland. For the avoidance of doubt, the definition in paragraph 1.19 of "Financial Regulator" in Term Sheet N546/2009 is deleted and replaced, with immediate effect, with this definition of the Central Bank. All references to the "Financial Regulator" in Definitions in Term Sheet N546/2009 are deleted and replaced with immediate effect with "Central Bank".;

1.7.1 "Contingent Assets" means that part of the […]portfolio that may be disposed of in accordance with the provisions of Clause 11 herein;

1.7.2 "Contingent Assets Target Disposal" means the disposal of the Contingent Assets provided for under the terms set out in Clause 11.0 herein;

1.7.3 "Contingent Capital Instrument" means the contingent €1 billion Tier 2 debt instrument issued by BOI to the Irish State as part of the 2011 Capital Raising Exercise and described in more detail in the BOI Prospectus published on 18 June 2011;

1.7.4 "Core Portfolios" means that element of the loan portfolios, designated as core under the 2011 PCAR/PLAR Procedures as set out in the Revised 2011 EU Restructuring Plan;

1.10.1 "Date of the 2011 Final Decision" means the day on which the European Commission adopts the 2011 Final Decision;

1.13.1 "Deleveraging Loan Portfolios" means that element of the loan portfolios designated as non core under the 2011 PCAR/PLAR Procedures as set out in Annex I of this Term Sheet;

1.13.2 "Deleveraging Loan Portfolio Target Disposals" or "Target Disposals" means the target Disposals which are included in the Deleveraging loan volumes, details of which are set out in Annex I of this Term Sheet;

1.13.3 "Disposal Discount" means the maximum disposal discount agreed per portfolio either (i) as part of the 2011 PCAR/PLAR Procedures, details of which are set out in Annex I; or (ii) for the […] Core Portfolio as set out in Annex II;

1.13.4 "Disposals" or "Disposed" or "Dispose" includes outright sale, and/or the sale of assets or interests to other syndicate or consortium members;

1.16.1 "ELG Scheme" means the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (S.I. No. 490 of 2009) as amended by S.I. No. 470 and S.I. 546 of 2010, as extended by S.I 547 of 2010 and as may be amended over time subject to approval of the European Commission;

1.16.2 "Emergency Liquidity Assistance" means the provision of emergency liquidity assistance (ELA) by the Central Bank against adequate collateral in exceptional circumstances to a temporarily illiquid credit institution which cannot obtain liquidity through either the market or participation in monetary policy operations.[22]

1.26.1 "International Project Finance" means BOI's international project finance business as detailed in Schedule 13 herein and which excludes Project Finance Ireland & Northern Ireland;

1.27.1 [...];

1.30.1 "Loan to Deposit Ratio" means total loans and advances to customers net of impairment (excluding assets held for sale to NAMA) / total customer deposits;

[22] Source: ECB Monthly Bulletin February 2007 – The Arrangements for Financial Crisis Management.

1.37.1 “Mortgages” means all loans secured on residential property in Ireland issued by a credit institution or building society where the purpose of the advance, typically, is to either finance the change of ownership of, or improvements to, the residential property on which the loan is secured but which may also include non-property related purposes. Any references to Mortgages include both owner occupier and buy-to-let property.

1.40.1 “Non Core Divestments” means the Divestment Businesses of (i) Burdale; (ii) International Project Finance; and (iii) US Real Estate with maximum Disposal Discounts agreed under the 2011 PCAR/PLAR procedures and as set out in Annex I;

1.44.1 “Ordinary Stock” shall have the meaning ascribed to it in the BOI Prospectus;

1.44.2 “Par Value” means the face value of a loan (i.e. gross of provisions);

1.46.1 “Project Finance Ireland & Northern Ireland” means the project finance loan portfolio in the Republic of Ireland and Northern Ireland of c.€[...]m at 31 December 2010, with an FTE of [...] and that has been designated as a core portfolio under the 2011 PCAR/PLAR procedures;

1.51.1 “Revised 2011 EU Restructuring Plan” means BOI’s final complete revised 2011 EU Restructuring Plan dated 29 July 2011 (including amendments and modifications) submitted by the Department of Finance to the European Commission;

1.54.1 “SME Loans” means all lending to any small and medium-sized enterprise as defined by the European Commission Recommendation of 6 May 2003 (OJ L 124, 20.5.2003, p.36) in Ireland engaged in an economic activity, irrespective of legal form (e.g. corporation, partnership, sole-trader), which employs fewer than 250 persons and whose annual turnover does not exceed €50 million or whose annual balance sheet does not exceed €43 million. Such lending includes secured and unsecured lending via term loans, commercial mortgage loans repayable over a defined period of up to 15 years and asset finance and commercial finance and invoice discounting, whether the interest rate for the loan concerned is variable, or a fixed margin over a specified reference interest rate, or an interest rate fixed for all or part of the term of the loan. Excluded from this definition is any lending to non-SME commercial entities, persons acting as consumers, “government” and "other financial” customer categories;

1.55.2 “Substitution” or “Substitute” means any substitution made in accordance with the right of substitution rule set out in Clause 2.9;

1.56.1 “Term Sheet N546/2009” means the term sheet annexed to the Commission Decision “State aid N546/2009 – Restructuring of Bank of Ireland” approved on 15 July 2010;

1.56.2 “Term Sheets” mean Term Sheet N546/2009 and this Term Sheet collectively;

1.56.4 “UK Business Banking Portfolio – Deleveraging Element” means, €[...]bn of the UK business banking portfolio, designated as non core under the 2011 PCAR/PLAR

Procedures, details of which are set out in Annex I of this Term Sheet;

1.56.5 "UK Corporate Banking Portfolio – Deleveraging Element" means, €[...]bn of the UK corporate banking portfolio, designated as non core under the 2011 PCAR/PLAR Procedures, details of which are set out in Annex I of this Term Sheet;

1.57.1 "UK Investment Property Portfolio" means €[...]bn of the UK investment property portfolio, designated as non core under the 2011 PCAR/PLAR Procedures details of which are set out in Annex I of this Term Sheet and further defined as UK lending categorised as Investment Property in BOI Group's statutory accounts (which is aligned with the corresponding regulatory market sector classification), i.e. lending whose primary purpose is to finance, or refinance from a third party, the purchase of, or release of equity against, income-producing commercial real estate where the underlying real estate is located predominantly in the UK;

1.58.1 "US Real Estate" means the US property business of BOI as described further in Schedule 14 herein;

2.0 Basis of the Measures

2.1 Clause 2.1 of Term Sheet N546/2009 shall remain valid, but will be updated with amendments to include the following: The 2011 Measures set out below are conditional on the European Commission adopting a 2011 Final Decision stating that (i) all State aid received by BOI since the July 2010 Final Decision is compatible with the internal market in accordance with Articles 107 to 109 of the Treaty on the Functioning of the European Union. State aid in this context shall have the same meaning ascribed to it in Term Sheet N546/2009 and shall also include without limitation, any possible State aid element in Ireland's guarantees on short-term liabilities from October 2010, new guarantees under the ELG scheme approved prior to the 2011 Final Decision together with any further extensions to this scheme, guarantees associated with the Emergency Liquidity Assistance, the further transfers to NAMA, the 2011 Capital Raising Exercise and any other State aid provided.

2.2 Clause 2.2 in Term Sheet N546/2009 shall be deleted in its entirety and replaced, with immediate effect, with the following: For the avoidance of doubt, the only businesses which BOI has committed to Sell are the Divestment Businesses as described in Term Sheet N546/2009 as amended by this Term Sheet. All statistics and figures quoted herein are those believed by BOI to be applicable as at a particular point in time and such statistics and figures may be subject to change.

2.5 Clause 2.5 of Term Sheet N546/2009 shall remain valid, subject to (i) Clause 2.7 below and (ii) all references to Term Sheet shall be amended to Term Sheets.

2.6 All references to "Final Decision" in the Schedules of Term Sheet N546/2009 shall mean Final Decision as defined in the Term Sheet N546/2009 for the Divestment business New Ireland and 2011 Final Decision for Non Core Divestments: (i) Burdale; (ii) International

Project Finance; and (iii) US Real Estate, subject to amendments to the Schedules and Clauses 3.8.8, 3.9.7 and 3.10.7 herein.

2.7 All references to "Measure" or "Measures" in Term Sheet N546/2009 shall be amended to mean 2010 Measures as amended by, deleted and added to by 2011 Measures, save for the following:(i) Definition 1.35 of Term Sheet N546/2009; and (ii) Clause 2.1 of Term Sheet N546/2009 reference to Measures. For the avoidance of doubt, these exceptions shall continue to hold the same meaning as defined in Term Sheet N546/2009.

2.8 A Substitution rule as described below shall apply to the Non Core Divestment businesses outlined in Clause 3.0 herein and the Deleveraging Loan Portfolio Target Disposals as outlined in Clauses 4.0 and 5.0 herein. In case BOI is not able to Dispose of a Non Core Divestment business or a Deleveraging Loan Portfolio Target Disposal (as identified in Annex I) within the Disposal Discounts, BOI will make best efforts to substitute these loans with loans of equal nominal value from the following portfolios, in the order described herein:

(i) the same Non Core Divestment business or Deleveraging Loan Portfolios;
(ii) other Deleveraging Loan Portfolios; and
(iii) the Core Portfolios.

For the avoidance of doubt, the Disposal Discount of the Non Core Divestment business or Deleveraging Loan Portfolio Target Disposal being substituted applies to (i), (ii) and (iii) above.

Similarly, in order to ensure compliance on a timely basis with Central Bank of Ireland liquidity targets and/or take advantage of market conditions for businesses/loan portfolios, BoI may, subject to Monitoring Trustee approval, substitute loans in the manner described above which may also potentially include an alternative sequencing in the order of substitution set out above.

For the avoidance of doubt, any loan balances retained by BOI as a result of the Substitution rule shall not be subject to the Non Core Divestment businesses commitments and/or the Deleveraging Loan Portfolio commitments.

2.9 For the avoidance of doubt, all Term Sheet N546/2009 assumptions or clarifications agreed with the Monitoring Trustee and/or the European Commission and documented in the Monitoring Trustee's quarterly reports regarding Term Sheet N546/2009 shall remain valid subject to any amendments, deletions or additions herein.

3.0 Divestment Businesses

3.1 Clause 3.1 of Term Sheet N546/2009 shall be deleted and replaced in its entirety, with immediate effect by the following: Where appropriate and on the basis of a sufficiently reasoned request from Ireland and BOI and taking into consideration the views of the Monitoring Trustee, the Commission may extend the target dates for implementation of the Sale of the Divestment Business for the Divestment Periods set out in Clause 3 and 11 herein. Such extension may be granted in particular when the divestment of the

Divestment Businesses will not be implemented by these dates through no fault of BOI. If no such Sale takes place during the extension of the Divestment Period or in case the European Commission decides not to grant an extension to the Divestment Periods, then the Sale will be managed and effected by the Divestiture Trustee who will divest the Divestment Business (a) at no minimum price in relation to the New Ireland Divestment and (b) at a price no lower than Par Value less the Disposal Discounts, on a cumulative basis, agreed as part of the 2011 PCAR/PLAR Procedures for the Non Core Divestment Businesses, details of which are set out in Schedule 10.6 and Annex I. Non Core Divestments Divestiture Trustee obligations shall be subject to Clauses 3.8.7, 3.9.6 and 3.10.6 below

3.2 BOI commits to Sell its Life Assurance Business

3.2.1 Clause 3.2.1 of Term Sheet N546/2009 shall remain valid save for the following amendment: all references to "[...]" in Clause 3.2.1 of Term Sheet N546/2009 shall be deleted and replaced, with immediate effect, with the following: "[...]".

3.2.2 Clause 3.2.2 of Term Sheet N546/2009 shall be deleted in its entirety and replaced, with immediate effect, with the following: Divestment Period: by [...].

3.5 BOI's commitment with respect to its ICS business

3.5.1 BOI shall have no obligation whatsoever to sell ICS. Clause 3.5 (entitled "BOI commits to Sell ICS") and Schedule 3 (entitled "Further Description of the ICS Measure") in Term Sheet N546/2009 shall be deleted in their entirety, with immediate effect.

3.6 Sell BOI's shares in ICB

3.6.1 BOI shall have no obligation whatsoever to divest of the shares in ICB. Accordingly, Clause 3.6 (entitled "Sell BOI shares in ICB") and Schedule 4 (entitled "Further Description of the ICB Measure") in Term Sheet N546/2009 shall be deleted in their entirety, with immediate effect.

3.8 BOI commits to Sell Burdale

3.8.1 Business Description: Comprehensive asset based lending business with operations in the UK and the US.

3.8.2 Divestment Period: by […].

3.8.3 The Divestment Period may be extended by a period of six months as outlined in Clause 3.1.0 herein.

3.8.4 Dependent on purchaser requirements, this business may be sold, in whole or in part, including but not limited to by way of a share sale or an asset sale to a purchaser or to a number of purchasers.

3.8.5 If Burdale is Sold by way of share sale, BOI is not required to divest of the business at a price lower than Net Book Value.

3.8.6 If Burdale is Sold by way of asset sale, BOI is not required to divest of the loan portfolio at a price lower than Par Value less the Disposal Discount, on a cumulative basis, agreed as part of the 2011 PCAR/PLAR Procedures, details of which are set out in Annex I.

3.8.7 BOI shall not re-enter this business for the duration of the 2011 Revised Restructuring Period. For the avoidance of doubt, BOI shall continue to provide comprehensive asset based lending business for Irish clients.

3.8.8 Implementation of measure: the Measure will be implemented subject to the conditions set out herein and in accordance with the implementation procedures in Schedules 7, 8, 9, 10 and 11 of Term Sheet N546/2009.

3.9 BOI commits to Sell International Project Finance

3.9.1 Business Description: Specialist lender for international projects with particular focus on infrastructure and energy sectors, excluding Project Finance Ireland & Northern Ireland, which consists of a loan portfolio and employees.

3.9.2 Divestment Period: by [...].

3.9.3 The Divestment Period may be extended by a period of six months as outlined in Clause 3.1.0 above.

3.9.4 For the avoidance of doubt, BOI is not required to divest of the business at a price lower than Par Value less the Disposal Discount, on a cumulative basis, agreed as part of the 2011 PCAR/PLAR Procedures, details of which are set out in Annex I.

3.9.5 Dependent on purchaser requirements, this business may be sold including but not limited to by way of an asset sale or a number of asset sales to a purchaser or to a number of purchasers.

3.9.6 BOI will not enter into any new lending for International Project Finance except in so far as is necessary for credit mitigation purposes for the duration of the 2011 Revised Restructuring Period.

3.9.7 Implementation of measure: the Measure will be implemented subject to the conditions set out herein and in accordance with the implementation procedures in Schedules 7, 8, 9,

10 and 11 of Term Sheet N546/2009. However, as this business is principally the divestment of a non core asset portfolio, implementation in accordance with these Schedules is subject to the following exclusions: S7.1(a), S7.2, S7.3, S7.4, S7.8 (references to information memorandum) and S8.3. While, for the purposes of this Divestment and due to the non core designation of this business, BOI is exempt from Clause S7.1, BOI will still commit to appropriately manage the day-to-day maintenance of this portfolio. In addition, until the Divestment is completed, BOI shall assist the Monitoring Trustee in ensuring that the Divestment Business is managed as a distinct and saleable entity separate from the businesses retained by BOI.

3.10 BOI commits to Sell its US Real Estate Business

3.10.1 Business Description: US property business which consists of a loan portfolio and employees.

3.10.2 Divestment Period: by [...].

3.10.3 The Divestment Period may be extended by a period of six months as outlined in Clause 3.1.0 herein.

3.10.4 For the avoidance of doubt, BOI is not required to divest of the business at a price lower than Par Value less the Disposal Discount, on a cumulative basis, agreed as part of the 2011 PCAR/PLAR Procedures details of which are set out in Annex I.

3.10.5 Dependent on purchaser requirements, this business may be sold including but not limited to by way of an asset sale or a number of asset sales to a purchaser or to a number of purchasers.

3.10.6 BOI will not to enter into any new lending for US Real Estate except in so far as is necessary for credit mitigation purposes for the duration of the 2011 Revised Restructuring Period.

3.10.7 Implementation of measure: the Measure will be implemented subject to the conditions set out herein and in accordance with the implementation procedures in Schedules 7, 8, 9, 10 and 11 of Term Sheet N546/2009. However, as this business is principally the divestment of a non core asset portfolio, implementation in accordance with these Schedules is subject to the following exclusions: S7.1(a), S7.2, S7.3, S7.4, S7.8 (references to information memorandum) and S8.3. While, for the purposes of this Divestment and due to the non core designation of this business, BOI is exempt from Clause S7.1, BOI will still commit to appropriately manage the day-to-day maintenance of this portfolio. In addition, until the Divestment is completed, BOI shall assist the Monitoring Trustee in ensuring that the Divestment Business is managed as a distinct and saleable entity separate from the businesses retained by BOI.

4. Deleveraging – UK Portfolios

4.0 UK Intermediary Mortgage Portfolio Deleveraging

4.3 Clause 4.3 in Term Sheet N546/2009 shall be deleted and replaced, with immediate effect, by the following: BOI commits to Deleverage €[...]bn of the UK Intermediary Mortgage Portfolio as at 31 December 2010 (as set out in Annex I), of which €[...]bn is foreseen to have been Deleveraged by [...] and €[...]bn is foreseen to have been Deleveraged by [...] in the Revised 2011 EU Restructuring Plan. As part of this Deleveraging commitment, BOI commits to a Target Disposal of €[...]bn by [...], (details of which are set out in Annex I) but is not obliged to dispose of this Target Disposal at a price lower than Par Value less the Disposal Discount, on a cumulative basis, agreed as part of the 2011 PCAR/PLAR Procedures, details of which are set out in Annex I. For the avoidance of doubt, any mortgage lending through UK Plc or in Northern Ireland is excluded from this commitment.

4.4 Clause 4.4 in Term Sheet N546/2009 is deleted in its entirety.

4.5 For the avoidance of doubt, the commitment to Deleverage the UK Intermediary Mortgage Portfolio shall apply only to those assets that are not booked in or transferred to the UK Subsidiary. For the purposes of this commitment, all UK Intermediary Mortgage Portfolio assets that have been transferred to the UK Subsidiary will be treated as having been Deleveraged, provided that the Loan to Deposit Ratio in the UK Subsidiary will remain at or below 100%.

4.6 UK Corporate Banking Portfolio - Deleveraging Element

4.7 BOI commits to reduce the UK corporate banking portfolio by €[...]bn by way of Target Disposal, refinancings and redemptions of the UK Corporate Banking Portfolio – Deleveraging Element by [...], but is not obliged to dispose of this Target Disposal at a price lower than Par Value less the Disposal Discount, on a cumulative basis, agreed as part of the 2011 PCAR/PLAR Procedures details of which are set out in Annex I.

4.8 For the avoidance of doubt, this commitment to reduce the UK Corporate Banking Portfolio – Deleveraging Element, shall apply only to those assets that are not booked in or transferred to the UK Subsidiary. All UK corporate banking portfolio assets that have been transferred to the UK Subsidiary shall be treated as having been Deleveraged, provided that the Loan to Deposit Ratio in the UK Subsidiary will remain at or below 100%.

4.9 UK Investment Property Portfolio – Deleveraging Element

4.10 BOI commits to Deleverage €[...]bn of the UK Investment Property Portfolio as at 31 December 2010 (as set out in Annex I) of which €[...]bn is foreseen to have been Deleveraged by [...] and €[...]bn is foreseen to have been Deleveraged by [...], in the

Revised 2011 EU Restructuring Plan. As part of this Deleveraging commitment, BOI commits to a Target Disposal of €[...]bn by [...], but is not obliged to dispose of this Target Disposal at a price lower than Par Value less the Disposal Discount, on a cumulative basis, agreed as part of the 2011 PCAR/PLAR Procedures, details of which are set out in Annex I.

4.11 For the avoidance of doubt, this commitment to Deleverage the UK Investment Property Portfolio – Deleveraging Element, shall apply only to those assets that are not booked in or transferred to the UK Subsidiary. All UK investment property portfolio assets that have been transferred to the UK Subsidiary shall be treated as having been Deleveraged, provided that the Loan to Deposit Ratio in the UK Subsidiary will remain at or below 100%.

4.12 BOI will not enter into any new lending for the UK Investment Property Portfolio – Deleveraging Element except in so far as is necessary for credit mitigation purposes. BOI's management decisions with regard to the portfolio can only have a neutral or decreasing effect on the amount of risk weighted assets attributed to the portfolio at the time of the 2011 Final Decision.

4.13 UK Business Banking Portfolio – Deleveraging Element

4.14 BOI commits to reduce the UK business banking portfolio by €[...]bn by way of Target Disposal, refinancings and redemptions of the UK Business Banking Portfolio – Deleveraging Element for the same amount by [...], but is not obliged to dispose of this Target Disposal at a price lower than Par Value less the Disposal Discount, on a cumulative basis, agreed as part of the 2011 PCAR/PLAR Procedures details of which are set out in Annex I.

4.15 For the avoidance of doubt, the commitment to reduce the UK Business Banking Portfolio – Deleveraging Element, shall apply only to those assets that are not booked in or transferred to the UK Subsidiary. All UK business banking portfolio assets that have been transferred to the UK Subsidiary shall be treated as having been Deleveraged, provided that the Loan to Deposit Ratio in the UK Subsidiary will remain at or below 100%.

5.0. Deleveraging – Other Portfolios

5.0 Corporate Loan Portfolio Deleveraging

5.1 Clause 5.1 in Term Sheet N546/2009 shall be deleted and replaced, with immediate effect, with the following: BOI commits to Deleverage €[...]bn of the Corporate Loan Portfolio as at 31 December 2010 (as set out in Annex I), of which €[...]bn is foreseen to be Deleveraged by [...] and €[...]bn is foreseen to have been Deleveraged by [...].

5.3 Clause 5.3 in Term Sheet N546/2009 shall be deleted and replaced, with immediate effect, with the following: As part of this Deleveraging commitment, BOI commits to a Target

Disposal of €[...]bn by [...], (as set out in Annex I) but is not obliged to dispose of this Target Disposal at a price lower than Par Value less the Disposal Discount, on a cumulative basis, agreed as part of the 2011 PCAR/PLAR Procedures, details of which are set out in Annex I.

7.0 BOI commits to a cap on BOI's expenditure on Marketing, Advertising and Sponsorship in Ireland

7.1 Clause 7.1 of Term Sheet N546/2009 shall remain valid, but will be amended to extend the commitment by 12 months, i.e. for the avoidance of doubt, to cap the nominal level of its expenditure externally on Marketing, Advertising and Sponsorship in Ireland at the same level as it was for its financial year ended dated 31 March 2008 for three years, commencing on the Date of the 2011 Final Decision.

8.0 BOI commits to making no Acquisitions and accepts restrictions on the scope of BOI's business for a period of time

8.1 Clause 8.1 of Term Sheet N546/2009 shall be deleted in its entirety and replaced, with immediate effect, with the following: BOI commits, from the 15 July 2010 until the earlier of: (i) 31 December 2015; or (ii) the date by which the NPRFC Preference Shares and the Contingent Capital Instrument shall have been repaid in full or are no longer owned by Ireland, for any reason whatsoever, not to make any acquisition of any Financial Institution or conduct acquisitions that would alter the beneficiary's business model. However, BOI may make such an Acquisition where: the cumulative purchase price excluding the assumption of debt paid by BOI for all Acquisitions during the period between 15 July 2010 and 31 December 2015 is less than €[...]m per fiscal year or a total cumulative amount of €[...]m.

9.0 BOI commitments in respect of dividends on Ordinary Stock

9.2 Clause 9.2 of Term Sheet N546/2009 shall be deleted in its entirety and replaced, with immediate effect, with the following. BOI commits not to pay dividends on its Ordinary Stock until the earlier of: (i) 31 December 2015; or (ii) the date by which the NPRFC Preference Shares are repaid in full or are no longer owned by Ireland, for any reason whatsoever.

10.0 BOI commits to operate certain competition measures

10.0.1 The commitments detailed in Clause 10 in Term Sheet N546/2009 shall be amended, with immediate effect as follows: All references to the years "2012", "2013" and "2014" in Clause 10 of Term Sheet N546/2009 shall be deleted and replaced, with immediate effect, with the years "2013", "2014" and "2015" respectively.

10.5.1.7 In case there is reasonable doubt regarding the Market Share of a Relevant Competitor, the Relevant Competitor in question shall provide, on a strictly confidential basis, to the Monitoring Trustee such information, as may reasonably be required by the Monitoring Trustee to establish the Relevant Competitor's market share in the Relevant Product market, failing which, the Relevant Competitor shall not be entitled to avail of the Customer Mobility Package for that Relevant Product.

10.6 Clause 10.6 in Term Sheet N546/2009 shall be deleted and replaced, with immediate effect, with the following: For each Relevant Product subject to a mailing, BOI commits:

(a) not to contact a customer with advertising literature relating to that Relevant Product where that customer has been one selected for contact and contacted on behalf of a Relevant Competitor during the six months following such contact on behalf of the Relevant Competitor;

(b) not to contact that customer for an additional one year with advertising literature relating to that Relevant Product, if such a competitor switches to the Relevant Competitor under this Measure and BOI knows that such a customer has switched.

(c) not to contact that customer during the additional one year referred to in point (b) with any advertising literature which is specifically designed to recapture customers to the Relevant Product switched.

For the avoidance of doubt, BOI shall remain free to contact such customers for regulatory reasons and as part of any initiative reasonably necessary to advise customers and others of issues such as fraud, criminal acts (e.g. forged banknotes or bank robberies, changes in terms and conditions in products) or greater exposure to risk.

10.8 A Relevant Product will be excluded from a mailing period if the Market Share of BOI in terms of both stock and flow, for that Relevant Product, falls to or below 30% for any Date of the Request Market Share measurement.

11.0 Contingent Assets Target Disposal

11.1 BOI commits to the Contingent Assets Target Disposal on the terms and subject to the conditions set out in this Clause 11.

11.2 To the extent that BOI does not meet a Loan to Deposit Ratio of 122.5% or lower by […], then, as a contingency, BOI will Dispose of the […] Core business by […].

11.3 If BOI achieves a Loan to Deposit Ratio of 122.5% by […], then the contingent commitment of paragraph 11.2 is not triggered.

11.4 To the extent that BOI does not meet a Loan to Deposit Ratio of 116% or lower by […] then, as a contingency, BOI will Dispose of the […] Core business by […].

11.5 If BOI achieves a Loan to Deposit Ratio of 116% by […], then the contingent commitment of paragraph 11.4 is not triggered.

11.5 For the purposes of the calculation of the Loan to Deposit Ratios, all Deleveraging Loan Portfolio Target Disposals, Divestments or other Disposals (not subject to these Term

Sheets) contractually agreed as at […] and as at […] shall be excluded from BOI's loans and advances to customers balances on those dates;

11.6 Contingent Assets Target Disposal Period: by […] if Clause 11.2 becomes effective and by […] if Clause 11.3 becomes effective. For the avoidance of doubt, if Clause 11.2 and Clause 11.3 do not apply, then BOI will be under no obligation whatsoever to Dispose of the Contingent Assets.

11.7 For the avoidance of doubt, BOI shall have no obligation to Dispose of the Contingent Assets Target Disposal at a price lower than Par Value less the Disposal Discount, on a cumulative basis, as set out in Annex II.

11.8 Where Clause 11.2 and / or Clause 11.3 applies and the Disposal of the Contingent Assets is not contractually agreed within the appropriate timeframes as outlined in Clause 11.5 or in the case the European Commission decides not to grant an extension to the target dates, then the Disposal will be managed and effected by the Divestiture Trustee who will Dispose of the Contingent Assets at a price no lower than Par Value less a Disposal Discount, on a cumulative basis, as set out in Annex II. Clause 3.1 will apply mutatis mutandis.

Schedules

Schedule 1. : Further Description of the Life Assurance Measure

S1.3 Schedule S1.3 of Term Sheet N546/2009 shall remain valid, save for the following amendment, with immediate effect: all references to "[...]" shall be shall be deleted and replaced, with immediate effect, by "[...]".

Schedule 8. : Divestment Obligations

S8.3 Schedule S8.3 of Term Sheet N546/2009 shall remain valid, save for the following amendment, with immediate effect: all references to "the Divestment Business, described in appropriate detail in Schedules 1 to 6" shall be shall be deleted and replaced, with immediate effect, by "the Divestment Business, described in appropriate detail in Schedules 1 to 6 and Schedules 12 to 14".

S8.4 Schedule S8.4 of Term Sheet N546/2009 shall remain valid, save for the following amendment, with immediate effect: all references to the "restructuring period (31 December 2014)" shall be deleted and replaced, with immediate effect, by "2011 Revised Restructuring Period (31 December 2015)".

Schedule 9. : Monitoring Trustee

S9.11 The 2011 Measures (as set out in this Term Sheet) constitute an expansion and an amendment of the 2010 Measures (as agreed under Term Sheet N546/2009), therefore, subject to the appointed Monitoring Trustee agreeing to the revised terms of the Trustee Mandate, the Monitoring Trustee for the 2010 Measures will continue as a Monitoring Trustee for BOI with regard to the implementation of the 2011 Measures and shall carry out the functions specified in the Term Sheets for a Monitoring Trustee.;

S9.12 Subject to the Monitoring Trustee agreement, no later than one month after the Date of the Final Decision, BOI shall submit to Ireland, which will transmit to the European Commission, BOI's proposal to extend the appointment of the approved Monitoring Trustee to the European Commission for approval. The proposal shall contain (a) the amendments to the existing mandate, which shall include all provisions necessary to enable the Trustee to fulfil its duties under these Measures; (b) the outline of a work plan which describes how the Trustee intends to carry out its assigned tasks for the 2011 Measures; and (c) an indication whether the proposed Trustee is to act as both Monitoring Trustee and Divestiture Trustee or whether different trustees are proposed for the two functions.

Schedule 10. : Divestiture Trustee

S10.1 S10.1 of Term Sheet N546/2009 shall be deleted and replaced, with immediate effect, as follows. The Divestiture Trustee shall sell the Divestment Business to a purchaser in the period of time allocated for Sale by the Divestiture Trustee, provided that the Commission has approved both the purchaser and the final binding sale and purchase agreement. The

Divestiture Trustee shall sell the Divestment businesses of New Ireland at no minimum price. The Divestiture Trustee shall not sell the Non Core Divestment businesses at a price lower than Par Value less the Disposal Discount, on a cumulative basis, per portfolio, agreed as part of the 2011 PCAR/PLAR Procedures, details of which are set out in Annex I. The Divestiture Trustee shall not dispose of the Contingent Assets Target Disposal at a price lower than Par Value less the Disposal Discount, on a cumulative basis, as set out in Annex II. The Divestiture Trustee shall include in the sale and purchase agreement such terms and conditions as it considers appropriate for an expedient Sale in the period of time allocated for Sale by the Divestiture Trustee. In particular, the Divestiture Trustee may include in the sale and purchase agreement such customary representations and warranties and indemnities as are reasonably required to affect the Sale. The Divestiture Trustee shall protect the legitimate financial interests of BOI, subject to BOI's unconditional obligation to divest at a price equal to or above the Disposal Discounts, on a cumulative basis, for the Non Core Divestment business and the Contingent Assets Target Disposal, details of which are set out in Annex I and Annex II, in respect of Contingent Assets, in the Divestiture Trustee period.

S10.6 For the avoidance of doubt, the Divestiture Trustee shall not apply the Substitution rule.

Schedule 12. : Further description of Burdale

S12.1 Burdale is a long established and respected provider of comprehensive asset based lending ("CABL") founded in 1997 and acquired by BOI in January 2005. A US business, trading under the Burdale name, was established in 2006. BOI will dispose of (a) the UK Business – Burdale Financial Holdings Limited and (b) the US Loan Portfolio.

S12.2 The sale will include loan portfolios, employees, scalable physical infrastructure, brand, supporting intellectual property and contracts or such other assets as will be negotiated between BOI and the acquirer.

S12.3 Specialised asset based lending: secured formula driven loans to mid-market. Burdale provides finance based on substantially all of a client's assets - property, plant and machinery, stock, book debts, and, in some cases, intangible assets. CABL is senior debt secured against all of the assets of a business.

S12.4 As at 31 December 2010:

- Total approved limits *c.*€[...]bn; drawings *c.*€[...]bn
- Total number of facilities: Overall book: [...] (UK: [...]; US: [...])
- Average drawn bite size: €[...]m;
- [...] employees
- c.[...]% business UK based and c.[...]% of business US base

Schedule 13. : Further description of International Project Finance

S13.1 Established 1999, International Project Finance (excluding Ireland) consists of a team of [...] FTEs operating in offices in London, Stamford and Sydney and a loan portfolio of €[...]bn as at 31 December 2010.

S13.2 Significant focus on financing of projects in the infrastructure and energy sectors:
- Infrastructure (*c.[...]*%) – transport, PPP (education, healthcare, government accommodation, *etc.*), and waste treatment.
- Energy (*c.[...]*%) – conventional electricity, renewable energy, oil and gas.

Schedule 14. : Further description of US Real Estate

S14.1 A relatively new property US business established in 2007. The portfolio is comprised of direct US exposures (99%) with 1% being cross jurisdictional exposures.

S14.2 This business consists of a loan portfolio of €[...]bn and [...] FTE as of 31 December 2010.

Schedule 15. : [...]

Appendix I – Non Core Divestments and Deleveraging Loan Portfolios

Non Core Divestments & Deleveraging Elements of Portfolios as at 31 December 2010 €bn	Non Core Divestments Customer Loans (net of provisions) & AFS	Deleveraging Element of Portfolios Deleveraging Balances Customer Loans (net of provisions) & AFS		Deleveraging Loan Portfolios Target Disposals (Included in Deleveraging Balances)	Disposal Discounts agreed under the 2011 PCAR/PLAR Procedures
NON CORE DIVESTMENTS					
Project Finance International Business	[...]				[...]
Burdale (Asset Finance)	[...]				[...]
US Real Estate	[...]				[...]
LOAN PORTFOLIOS – DELEVERAGING ELEMENT					
All of the UK loan portfolio balances listed below exclude balances held in UK Subsidiary at 31 December 2010)					
UK Corporate Banking Portfolio – Deleveraging Element		[...]		[...]	[...]
UK Investment Property Portfolio		[...]		[...]	[...]
UK Business Banking Portfolio – Deleveraging Element		[...]		[...]	[...]
UK Intermediary Mortgages Portfolio		[...]		[...]	[...]
Corporate Loan Portfolio includes:					
International Corporate Banking		[...]		[...]	[...]
Maritime		[...]			
Structured Credit		[...]			
CMBS		[...]			
Film Finance		[...]			
Totals	[...]	[...]		[...]	
Total Non Core Divestments & Deleveraging Loan Portfolios	**36.9**				

Total Asset Disposals **10.0**

Appendix II – Contingent Assets Target Disposals Discount

The Disposal Discount for the Contingent Assets Target Disposals […]

Annex II – Government measures

Ireland's Commitment to Enhance Further Competition in the Irish Banking Sector

Ireland committed to undertake a revised package of alternative measures in order to restore the competition in the Irish banking market by facilitating entry and expansion of competitors and enhancing the consumer protection in the financial sector. In particular, Ireland committed to carry out specific measures in order to enhance:

(a) Customer mobility and protection (provision of information; transparency to facilitate consumer decision making; financial inclusion);

(b) Entry of competitors (electronic banking, SEPA migration, quality and availability of credit history information and reporting by banks);

(c) Corporate governance.

I. Customer mobility and protection

I.1) Customer mobility

Specific Commitments	**Implementation Date**	**Lead Responsibility**	**[…]**
a. The Central Bank of Ireland will (i) Carry out a review of the provisions contained in the Code of Conduct on the Switching of Current Accounts ; (ii) Ensure that any necessary changes to the Code of Conduct on the Switching of Current Accounts following its review will be published.	By Q2 2012 By the end of Q2 2012	Central Bank of Ireland (CB)	[…]
b. Legislation will be enacted that will provide that Section 149 of the Consumer Credit Act, 1995 regarding price regulation and fees will not be applied to new entrants in their first 3 years of commencing business in Ireland.	by the end of Q2 2012	Department of Finance (DoF)	[…]
c. The Government will implement the following measures unless the review of the Consumer Protection Code -by the CB shows that they are not beneficial for the consumers (i) A prohibition on bundling unless it can be demonstrated that there is a cost saving for consumers (ii) Consumers will be informed on the overall cost of the bundle and the cost of each item separately as well as the cost of exiting the bundle	1 January 2012	CB	[…]

(iii) Where one or more financial products are sold in a bundle customers will be able to switch one or more of the products without penalty (apart from the loss of any 'loyalty' discount), they will be provided with easy access to information about switching out of one product in the bundle and they will be allowed to retain any product that they wish to keep with clear information of the costs involved.			

I.2) Provision of information

Proposed Measure	**Implementation Date**	**Lead Responsibility**	**[…]**
a. The NCA will redevelop the banking cost comparisons on its "itsyourmoney.ie" website to provide more and better information on available banking products. A mortgage rate comparison will be added. The site will be more interactive and will allow users to link to switching tips and to providers' websites for follow up.	Q4 2011	National Consumer Agency (NCA)	[…]
b. A user testing exercise will be carried out after six months of the implementation in order to assess the effectiveness of the NCA project and introduce any changes required.	Q2 2012	NCA	

I.3) Improved transparency to facilitate consumer decision making

Proposed Measure	**Implementation Date**	**Lead Responsibility**	**[…]**
a. Improvements in annual statements and notifications of changes in fees and interest charges[23]:-			[…]
i. Banks shall provide deposit account customers with annual statements of interest earned.			
ii. Banks when informing customers on changes in interest rates and charges shall include details of the old rate / charge, the new rate / charge and the difference in monetary terms (in the	1 January 2012.	CB	

[23] The Consumer Protection Code currently contains a number of provisions relevant to this area, however, these proposals represent refinements which will improve transparency for consumers.

case of rate changes for loans not covered by the CCD and for mortgages, when provided to personal consumers)[24].			

I.4) Financial inclusion

Proposed Measure	**Implementation Date**	**Lead Responsibility**	**[…]**
a. The domestic banking sector will be required to support and promote the availability of a basic bank account in the context of the implementation of the strategy agreed by Government for addressing financial exclusion.	Pilots will be launched Q 2 2012 National launch by end-2013.	DoF	[…]

II Entry of competitors

II.1) Electronic banking

Proposed Measure	**Implementation Date**	**Lead Responsibility**	**[…]**
a. Changes to the Consumer Credit Act			[…]
i. Section 45 will be amended to recognise electronic communications relating to credit agreements in the same way as written, i.e., hard copy paper communications, are currently recognised	Q2 2012 at the latest	DoF	
ii. Sections 30-35 will be amended (as it interacts with the Electronic Commerce Act 2000) to no longer prohibit the use of electronic signatures with respect to credit agreements	Q2 2012 at the latest	DoF	

II.2) SEPA migration

[24] This measure will not apply in the case of:

- credit agreements falling within the scope of the EC (Consumer Credit Agreements) Regulations 2010 under which creditors are required to provide information concerning changes in the borrowing rate as set out in regulation 14 of those Regulations and
- payment accounts falling within the scope of the EU (Payment Services) Regulations 2009 under which banks are required to provide information concerning changes in interest rates and charges on payment accounts as set out in Regulations 53 and 55 of those Regulations.

Proposed Measure	Implementation Date	Lead Responsibility	[…]
a. The State will work to ensure migration of central Government Departments to SEPA within 12 months of publication of the SEPA Regulation, subject to banks and software vendors being in a position to provide the necessary solutions for this to happen	12 months from the publication of the SEPA Regulation	DoF	

II.3) Improved quality and availability of credit history information and reporting by banks

Proposed Measure	Implementation Date	Lead Responsibility	[…]
a. Institutional arrangements for the provision of information on credit histories will be restructured to conform to best international practice for the provision of high quality credit history information. The Government will present to Dáil Éireann legislation to establish a statutory credit risk register[25].	Q4 2012	CB/DoF	[...]
b. Banks will be required – when making reports to credit bureaux - to distinguish between those customers who engage positively with lenders in relation to arrears and especially those with whom the institution has agreed a re-scheduled arrangement to allow new entrants to assess credit risk on a more granular level	Q4 2012	CB/DoF	

III) Corporate governance

III.1) Strengthening corporate governance in the financial sector

Proposed Measure	Implementation Date	Lead Responsibility	[…]

[25] *Part of the EU/IMF Programme of Financial Support For Ireland update 28 July 2011.*

a. Credit institutions with a significant retail customer presence in Ireland will be required to ensure that no director becomes or remains a director of any other credit institution with a significant retail customer presence in Ireland, except where such entities are within their group. The commitment will be implemented in practice for all credit institutions with a substantial retail customer presence in Ireland by way of written confirmation from the Central Bank. b. Consistent with Government objectives for promoting competition, strengthening financial regulation and promoting the interests of consumers; the empowerment of the Irish Competition Authority, Financial Regulator the National Consumer Agency, with respect to the financial sector, shall be reinforced (e.g envisaging additional financial and human resources or the enhancement of the power of sanctioning).	Q4 2011 -	CB CB/DoF	[…]

III.2) Measures concerning the Irish Competition Authority (ICA)

Proposed Measure	**Implementation Date**	**Lead Responsibility**	**[…]**
a. Move from emergency legislation (repeal s.7 Credit Institutions (Financial Support) Act 2008) limiting the role of the ICA to perform merger control in the financial sector, to a normalised merger control system.	Q1 2013	DoF	[…]

d) Reporting and implementation

Ireland committed to provide the competent bodies with adequate resources to implement each measure and to enhance the empowerment (e.g envisaging additional financial and human resources or the enhancement of the power of sanctioning).

No requirement for additional legal / regulatory / sanctioning powers or organisational resources has been identified by the bodies assigned responsibility to ensure implementation of the above measures. If any requirement for either

additional organizational (i.e. financial and human) resources or the provision of additional legal or regulatory powers, including the enhancement of sanctioning powers, arises for any of the competent bodies during the implementation process these requirements will be addressed by the appropriate national authority to ensure the implementation of each of the above commitments.

A steering group comprising senior representatives of the Department of Finance, the Central Bank of Ireland, the Competition Authority and the National Consumer Agency will review and report on progress in implementing the above commitments on an annual basis.